Ethnic Economies

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ACADEMIC PRESS
A Harcourt Science and Technology Company
San Diego  San Francisco  New York  Boston  London  Sydney  Tokyo
This Mexican-born man working in a wire factory found his job through ethnic referrals. With the exception of the factory's manager and secretary, all of its employees are Mexican immigrants, hired through ethnic networks.

African American entrepreneurs had been unusually successful in Tulsa, Oklahoma, converting the city's black community, Greenwood, into a showplace of enterprise and pride. When a black man was accused of raping a white woman, whites formed a lynch mob outside the jail on May 30, 1921. After exchanging shots with defenders, the white mob invaded Greenwood, burning and looting black-owned homes and businesses. By the time the National Guard broke up the riot, 18,000 homes and businesses had burned, and 304 people were dead. Newspapers blamed the African Americans for the riot.

During the night of November 9, 1938, Adolf Hitler's followers smashed Jewish storefronts in cities all over Germany. The Nazis also looted the stores, torched many, and shot and beat the hapless proprietors and their families. According to Hitler's propaganda minister, Josef Goebbels, "ordinary German citizens" had spontaneously arisen to punish the Jews for economic crimes. The police did not interfere.

The black-Korean conflict in Los Angeles came to the world's attention on April 29, 1992, when rioting and looting broke out in South Central Los Angeles, the heart of the city's black community. In 3 nights of rioting, the worst in American history since 1863, mobs damaged 2073 stores, nearly two-thirds of which
were Korean-owned. Of looted stores, 38% were also deliberately burned. Police protection was ineffectual.


In all these cases, angry mobs targeted ethnic businesses. Scholarly interest in the ethnic economy owes much to these horrifying incidents and to others, too numerous to enumerate, that are very similar. On the other hand, the ethnic economy also draws scholarly interest, especially in the United States, from the Horatio Alger tradition. Whatever Alger may really have meant, in American culture the "Horatio Alger tradition" stands for self-help that eventuates in rags-to-riches life stories. When despised and disadvantaged minorities start their own businesses, they progress from employee to business owner, a progression that Abraham Lincoln admiringly called "the true condition of the laborer."

Moreover, when ethnic and racial minorities open business firms, they create new jobs for themselves and others rather than taking jobs from the general labor market. These new ethnic enterprises expand the job supply of the host society, benefiting the ethnic social majority as well as the minority. One might suppose that, even if promised by self-interest, others would encourage and support ethnic business. Why should anyone hate those who increase the job supply? However, the historical record indicates that hatred and violence are frequent responses. Ethnic economies have been and still remain controversial. Three generations of social science inquiry have helped to clarify the reasons.

WHAT IS AN ETHNIC ECONOMY?

An ethnic economy consists of coethnic self-employed and employers and their coethnic employees. Whatever is not part of the ethnic economy belongs to the general labor market. Simple to define, and useful in studies of immigrant and ethnic minorities, the concept of ethnic economy derives from three feeder traditions. The first originates with the European founders of historical sociology; the second with the literature of middlemen minorities that descended from the first; and the third autonomously from African American economic thinkers, notably Booker T. Washington. Although classical economists had no interest in ethnicity, classical sociologists did. Marx, Weber, and Sombart all thought that modern capitalism emerged from and superseded a primitive, ethnic predecessor. Therefore, all three distinguished traditional capitalism and modern capitalism. Sombart declared that a modern capitalist enterprise operates impersonally. That is, decision makers place profit considerations ahead of all purely personal relations, including relationships of coethnicity. In contrast, "fraternal and communal sentiments" decisively shaped the decision making of traditional firms.

The symptoms were favoritism, nepotism, communalism, and exceptionalism in every phase of the traditional firm's operations.

Weber, too, maintained that everywhere in the world precapitalist firms operated a dual-price ethic that reflected underlying loyalties to ethnoreligious groups rather than a determination to maximize profit whatever the social consequences. Weber thought that profit maximization at the expense of all purely social ties was a feature of modern capitalism. Indeed, Weber excoriated the Jews from the charge of inventing capitalism, raised against them by romantic nationalism such as Richard Wagner, the composer, on the grounds that Jews were too traditional in their business outlook to have accomplished the task. Therefore, late-medieval Jews still permitted ethnoreligious relationships to color their business practice. For instance, during the transition from feudalism to capitalism, Jews would still charge a coethnic less than a non-Jew or do business favors for a Jew that they would not do for a non-Jew. Citing these backward practices, Weber pleaded the Jews guilty to minor ethnochaunism while exonerating them of the disgrace of having invented capitalism. Here Weber's widely shared view converged with the Marxist tradition that distinguished precapitalist business enterprise from capitalist business, reserving to the latter a dynamic role in social change.

Modern capitalism required a decisive break with traditionalism, said Weber, and the Jews could not break out. Weber claimed instead that Protestant sectarians, especially those influenced by Puritanism, had first stripped business enterprise of the fraternal and communal sentiments that had everywhere else in the world prevented the emergence of rational bourgeois capitalism from its ethnic predecessor. Weber believed that its universalism rendered rational bourgeois capitalism superior to traditional capitalism. First, universalism permitted legal regulation of contracts and relationships instead of reliance upon social trust and shared cultural understandings. Second, universalism permitted bureaucracy, itself a key technical innovation. Bureaucracy permitted unlimited expansion of organization size with access to economies of scale, meritocratic appointment to office, official careers, rational cost accounting, and continuous technical innovation. Both Weber and Marx relegated ethnic capitalism to a back burner of sociological interest where, until quite recently, it stayed. After all, ethnic capitalism could not reach vast size, employ bureaucratic methods of organization, appoint workers on the basis of technical qualifications, replace strikers with noncoethnic strikebreakers, accept the judgments of a balance sheet, or promote research and development. Modern capitalism could accomplish all these feats. Because of these advantages, modern capitalism drove out and replaced traditional capitalism.

Although traditional capitalism remained significant in underdeveloped countries, even there its days were numbered and its influence continually diminished. Following Weber, mainstream social science endorsed all these conclusions, promoting them virtually to canonical status.
MIDDLEMAN MINORITIES

The literature of middleman minorities developed in this intellectual climate. Oddly, Weber's own concept of "pariah capitalism" had called attention to ethnic minorities that specialized in market trading in precapitalist societies. Unlike proletarian minorities, whom Blauert theorized in terms of internal colonialism, and Bonacich in terms of split labor markets, middleman minorities were marginal trading peoples, residing in diasporas, who continued this commercial livelihood into the modern age despite the presumably adverse competitive climate created by modern capitalism. True, Jews were the star illustration of a middleman minority, a centrality that linked middlemen with Weber’s concept of pariah capitalism. However, following Howard Paul Becker, who first defined this concept, middleman minority theorists expanded the repertoire to include trading peoples all over the world. Armenians, overseas Chinese, Gypsies, Sikhs of East Africa, the Parces and Marwaris of India, Ismaili Muslims, the Hausa of Nigeria, and others also represented trading nations that sojourned abroad, performing mercantile roles in a context of old-fashioned ethnic capitalism.

Although old-fashioned ethnic capitalism still worked in backward, Third World regions, survival on the margin did not challenge the mainstream’s confidence in the ultimate superiority of modern capitalism. After all, so it was argued, middleman minorities inhabited backward regions still penetrated by modern capitalism. As capitalism expanded, big, rationally organized corporations would displace small and medium businesses that operated with traditional rules. Some of these were ethnic businesses; others belonged to the petit bourgeoisie. Both were doomed. A fine example of the mainstream’s eschatology is Clifford Geertz’s depiction of rotating credit associations as “a middle-run in development.” As Third World countries developed and modernized, Geertz claimed, they would replace the old-fashioned money pools with banks and insurance companies, the progressive financial institutions of modern capitalism. Decades later, rotating credit associations are more powerful and extensive than ever in many parts of the Third World, so the claim that modernization dooms them to oblivion is unpersuasive now.

Actually, a generation ago, when Clifford Geertz was still preaching the conventional view, research had already challenged the supposition that traditional ethnic business confined only liabilities and no advantages. On the contrary, middleman minorities had developed particularistic resources that supported and enhanced their business success. These resources included entrepreneurial values, beliefs, institutions, and social networks through which the children of middleman merchants easily moved into mercantile roles, continuing the tradition of their family and people. Moreover, as Bonacich argued, the uneasy practice of sojourning abroad inclined middleman traders to intensify their social solidarity, and social solidarity encouraged their business enterprises.

Nonetheless, instructive as it remains, the sociology of middleman minorities perpetuated certain conceptual blind spots. First, middleman theory stressed Third World contexts, implying that advanced market societies no longer had traditional capitalism. This implication mirrored the intellectual context in which the theory of middleman minorities had initially developed. That context fashioned a sharp distinction between traditional and modern capitalism, relegating ethnic capitalism to the doomed periphery of the world economy. Representing the cutting edge of capitalist development, the core could then be treated as free of the residues of traditional capitalism. Even if this judgment was in a broad sense correct, it was certainly oversimplified. In actuality, pluralistic societies of North America always contained marginal sectors within which ethnic capitalism continued to flourish, often more luxuriantly than the modern alternative. A simple core-periphery contrast overlooked these ethnic sectors, terribly important though they were to the communities involved.

Second, middleman minority theory could treat only trading peoples with a history of traditional capitalism. Groups such as the Chinese, Jews, India’s Marwaris, and Armenians met this qualification. But middleman minority theory could not address the situation of wage-earner groups among whom private business was a peripheral pursuit or who had only recently turned to entrepreneurship. This limitation rendered middleman theory of limited use in the analysis of the economic integration and social mobility of ethnic minorities and immigrants generally. If one wished to discuss the business enterprise of Cubans in Puerto Rico or of Koreans in California, the middleman minority concept was unsuitable because neither of these immigrant nationalities were historic trading peoples. The need to discuss these precise cases and others like them emerged empirically in the developed societies when many immigrant minorities turned impressively to business without a convincing middleman history and tradition. Business-oriented they certainly were, but they had not previously been historic middleman minorities.

Finally, middleman theory had lived comfortably with its own marginality. Middleman theory could explain old-fashioned ethnic capitalism in a Third World still unpenetrated by modern capitalism. However, when entrepreneurial minorities turned up in advanced industrial societies, not just in the periphery, they challenged the accommodation that middleman theorists had worked out within mainstream social theory. After all, the prosperity of middleman minorities in advanced countries implied that the ethnic business formula still worked even in the heartland of progressive capitalism. If so, the vaunted advantages of Fordist capitalism might not be so overwhelming as previously imagined. At a minimum, old-fashioned ethnic business had demonstrated more endurance than an earlier generation of theorists had imagined possible. At a maximum, old-fashioned ethnic business worked better than Fordist capitalism in selected contexts, and could even remedy economic problems (such as disintegrating central cities) that
modern capitalism could not. No one suggested then, as they do now, that
economic capitalism could sometimes outperform multinational corporations in
many contexts.34

BOOKER T. WASHINGTON

Booker T. Washington35 was the leading spokesman of black America in the last
decade of the 19th century. Unlike his arch-rival for African American leadership,
William E. B. DuBois,36 who stressed political action and education, Washington
stressed business ownership and home ownership as strategies for black advance-
ment.37 To this end, he founded the National Negro Business league in 1900.
Conceiving of the league as a federation of local black chambers of commerce,
Washington hoped the business leagues would improve the economic condition
of black America, substituting home ownership for tenancy and business own-
ership for unemployment. Washington’s book The Negro in Business laid out his
economic program, but it also described in empirical detail the advantages of
networking in business, a wisdom that American business schools did not receive
for another eight decades.

Within the African American community, Washington’s political opponents
criticized his willingness to compromise with racial segregation. It is true that
Washington recommended toleration of legal racial segregation in the South,
where most blacks then lived. In actuality, however, Washington did not accept the
South’s racial status quo as his opponents simplistically alleged. He only believed
that the development of black economic power should have priority over black
political power and black higher education. A dollar, he once remarked, was
worth more to blacks at that moment than was the franchise. Given economic
power, he thought, black people would have much less trouble claiming social and
political equality than they would without it. Therefore, forced to select a priority,
he stressed getting money over getting the vote. This judgment was not complete
madness. Reviewing the historical record, Robert Weems now declares that the
ideas of Washington “merit serious reconsideration.”39

Washington’s supporters lost a decisive political battle to DuBois, his oppo-
nent, at the Niagara Conference of 1905.36 After this defeat, Washington never
recovered his leadership, which was assumed by DuBois’s organization, the
National Association for the Advancement of Colored People. This organization’s
programmatic focus was on ballot access and education, not entrepreneurship.
Although banished from the leadership of the African American movement,
Washington’s economic philosophy remained influential among many black intel-
lectuals, including Malcolm X, and among African American business faculty, who
kept alive and improved his ideas in a series of research monographs.40 During the
1940s, African American intellectuals were maintaining the only active debate
about and research into minority entrepreneurship in the academy.41 When, years
later, interest in ethnic economies reemerged in North America, their writings
and those of Booker T. Washington informed and animated the scholarly literature
on the topic then available.42 Still later, as academic interest in immigrant and eth-
nic minority business spread to Europe, Australia, and Asia from the United States,
Washington’s legacy became global.

THE ETHNIC ECONOMY

Contemporary ethnic economy literature derives from all these feeder traditions,
but owes most to the theory of middleman minorities. Without denying the
achievements of middleman theory, which remains a valid case, ethnic economy
theory is more general. Every middleman minority has an ethnic economy,
but every ethnic economy does not betoken a middleman minority. An ethnic
economy or, as we shall later call it, an ethnic ownership economy exists whenever any
immigrant or ethnic group maintains a private economic sector in which it has a
controlling ownership stake. The size of the ethnic economy affects its signifi-
cance. A big ethnic economy is of more consequence than a small one. However,
size is not a defining feature of an ethnic economy. A small ethnic economy is
still an ethnic economy, and every ethnic group has an ethnic economy, including
white ethnic groups.43

Social science interest in ethnic economies began in 1972 with the publication
of Ethnic Enterprise in America by Ivan Light.44 This book compared Chinese,
Japanese, and African American self-employment between 1880 and 1940, con-
cluding that social trust supported entrepreneurship. Ethnic Enterprise in America
anticipated the major theoretical ideas that came later, including social and
cultural capital. Additionally it stressed the contributions of rotating credit associa-
tions to minority commerce. Rotating credit associations, discussed in chapter 4,
still provide the strongest evidence of social capital effects on business.45 However,
Ethnic Enterprise in America did not introduce the concept of ethnic economy.
Edna Bonacich and John Modell were the first operationally to define ethnic
economy.46 By ethnic economy, Bonacich and Modell meant any ethnic or immi-
grant group’s self-employed, its employers, their coethnic employees, and their
unpaid family workers. Thus defined, an ethnic economy demarcated the employ-
ment immigrant and ethnic minorities had created on their own account from
jobs provided them by the general labor market. Thanks to the hard-edge defini-
tion, one could measure the size of any ethnic economy in a single percentage. If
16% of all workers (including self-employed and employers) work in an ethnic
economy, then 84% of the group works in the general labor market. In this sense,
the Cuban ethnic economy of Miami comprises self-employed Cubans, Cuban
employers, and their Cuban employees in Miami. The Cuban ethnic economy
does not include Cubans who work for wages in the general economy. For exam-
ple, the Cuban ethnic economy does not include Cubans who work for agencies
of government, for multinational corporations, or for private businesses owned by non-Cubans. All of those Cuban employees work in the general labor market.

A puzzling issue is how to define an ethnic group. In principle, everyone is ethnic, including assimilated whites, and Collins 47 rightly complains that the ethnic business literature includes too few whites. As matters stand, whites are the least understood ethnic entrepreneurs. However, as a matter of practice, which is no guide to desirability, ethnic economy researchers have routinely defined ethnic groups in terms of their foreign national origins. Thus defined, the Irish originated in Ireland, a nation; and the Chinese originated in China, another nation. However, ethnic groups need not be defined by national origin. The Irish can be Protestant or Catholic, and each subset further differentiates into county affiliations that have ethnic quality within Ireland. Similarly, the Chinese can be from the mainland, from Taiwan, from Singapore, or from Hong Kong; they can speak various dialects; and they can come from one or another region, all of which have internal ethnic characteristics. Nationality is not a perfect indicator of ethnicity.

Like other indicators of national origin, the terms Irish, Mexican, Chinese, and so forth are approximations to real ethnic identities. Ethnic economies depend upon ethnicity not national origins for their boundaries, and national origin is just a convenient indicator of ethnicity, not the real thing. For example, although Chinese-speaking, Shanghaiese entrepreneurs played the role of ethnic minority in Hong Kong, a Cantonese city, 48 where their firms composed a Shanghaiese ethnic economy. Similarly, Iranians of four different ethnoreligious backgrounds cooperated mainly with coreligionists in Los Angeles, a circumstance that created four thinly linked Iranian ethnic economies, not just a unitary Iranian ethnic economy. 49 Similarly, Guarnizo 50 observes that 70% of Mexican American entrepreneurs in Los Angeles actually hailed from only four districts in Mexico, a provenance that is lost unless we examine internal ethnicity among Mexicans.

An ethnic economy is distinct because the personnel are coethnics. Intended only to distinguish the internal or external auspices of work creation, the concept of ethnic economy makes no claims about the locational clustering or density of firms, which might, indeed, be evenly distributed among neighborhoods and industries. 51 The concept of ethnic economy is agnostic about clustering. As a matter of definition, the concept also makes no claims about the level or quality of ethnicity within the ethnic economy or between buyers and sellers. Buyers and sellers need not be coethnics in the ethnic economy, nor need they conduct their business in a foreign language. This definition does not focus attention upon trade conducted by owners for the benefit of coethnic buyers, whether at the retail or the wholesale level. Owners are in their own group's ethnic economy regardless of whether their customers are or are not coethnics. The concept of ethnic economy neither requires nor assumes an ethnic cultural ambience within the firm or among sellers and buyers. Bonacich and Modell 52 research found that those in the Japanese American ethnic economy were more ethnically Japanese than Japanese Americans of the same generation who worked in the general labor market, a finding that O'Brien and Fugita 53 have confirmed. This empirical result was not a matter of definition. The Japanese American ethnic economy would have remained an ethnic economy even had the workers in this economy retained no higher Japanese ethnicity than Japanese Americans in the general labor market.

In the pluralistic societies of North America, immigrant and ethnic minorities have always competed for income, mobility, political power, and prestige. Assimilation theory always assumed that insertion at wage earners into the economic mainstream improved immigrants' earnings chances, and that insertion required accelerated acculturation. 54 In this view, still the dominant one, ethnic entrepreneurship would not enhance ethnic economic welfare so much as would economic incorporation into the wage-earning mainstream. 55 Wage jobs in the mainstream are deemed likely to pay more than the ownership of small businesses, and jobs outside the ethnic community are deemed better than jobs within it. 56 Reitz and Sklar's comprehensive survey 57 found that the assimilation model's economic assumptions did the economic experience of European ethnic and immigrant groups in Canada. Men of European origin paid a penalty of about 10% if they retained ethnic language use, a sign of nonacculturation. However, the assimilation model did not fit the economic experience of nonwhites in Canada, who paid no financial penalty at all when they continued to speak foreign languages in Canada. 58 Acculturated or not, nonwhites experienced economic disadvantage.

Turning to the ethnic economy, we find that some ethnolocial groups have turned heavily to entrepreneurship, others have made average use of it, and still others have made below-average use. 59 In the United States, high-entrepreneurship groups include Arabs, Armenians, Chinese, Gypsies, Greeks, Italians, Japanese, Jews, Indians and Pakistanis, Lebanese, Koreans, and Persians. 60 Immigrants of western and central European provenance have generally displayed only average entrepreneurship in North America, as have Cubans and Latin Americans. Blacks, Mexicans, Vietnamese, and Puerto Ricans have had below-average rates of entrepreneurship in North American towns and cities. 61

THE ETHNIC ENCLAVE ECONOMY

The concept of an ethnic enclave economy resembles the concept of ethnic economy and was often identified with it in the 1980s. 62 However, these are different concepts with different intellectual lineages. Unlike the concept of ethnic economy, which derived from the earlier literature of middleman minorities, the concept of ethnic enclave economy derived from dual labor market theory, itself a product of institutional economics. 63 Dual labor market theory developed in the late 1960s as an effort to explain persistent inequality in employment. Seeking to explain the reduced income and status attainment of women and
minorities, dual labor market theory claimed that disadvantaged groups were locked into an inferior, secondary labor market that did not offer egress into more desirable jobs in the primary sector of the labor market.68 "Labor market segmentation" meant the long-term coexistence of noncommunicating labor markets in which vastly different standards of remuneration and work satisfaction prevailed. Since neoclassical economics declared such a situation impossible, labor segmentation theorists had to concentrate on proof, not theory.69 Valid as far as it went, dual labor market theory took wage labor as its reality, entirely overlooking self-employment on the grounds, then widely shared, that self-employment was a dwindling phenomenon of negligible importance. In practice, this simplification led to a world view in which self-employment vanished from the consciousness of social scientists.70

Sullivan69 was the first to note that labor market studies could no longer treat self-employment as an anomaly that could be ignored. Somewhat later, Portes and Manning66 made the case more forcefully, and their view has subsequently prevailed. Although some segmentation theorists still ignore self-employment,70 informed opinion no longer mistakes such treatment for a comprehensive analysis. First, self-employment is no longer declining in North America, Australia or in western Europe. Second, its prevalence was long underestimated in official documents, a practice that, it is now realized, unrealistically encouraged social scientists to ignore the phenomenon.71 Finally, the effects of self-employment are usually stronger in immigrant and ethnic minority communities than they are in the general economy.72 Therefore, if self-employment is ignored, no treatment of employment can be comprehensive.

This influence of dual labor market theory is clear in the work of Wilson and Portes,73 the earliest formulation of the ethnic enclave economy. After a review of the dual labor markets literature, to which they believed themselves contributors, Wilson and Portes 74 introduced the concept of "immigrant enclave," a conceptual ancestor of the ethnic enclave economy. By immigrant enclave, however, Wilson and Portes still meant only the employment of immigrant workers in "the enclave labor market." Worker were in the enclave labor market if their employers were coethnics.75 Wilson and Portes did not include the self-employed in their study because only employees were of interest to students of labor market segmentation—and the self-employed were not employees.

Wilson and Portes's concept of ethnic enclave economy built upon dual labor market theory's distinction between the competitive and monopoly sectors.76 Wilson and Portes and his associates argued that ethnic enclave economies obtained some of the economic advantages of the monopoly sector even though, strictly speaking, they belonged in the competitive sector. Ethnic enclave economies obtained these advantages thanks to superior recapture of coethnic spending. This recapture was caused ultimately by vertical and horizontal integration along ethnic lines such that coethnic firms could suck value out of each stage of a product's movement toward the market, losing little or no value to noncoethnic firms. Using the Cubans of Miami as their example, Wilson and Portes showed that Cuban firms bought from and sold to one another to an extent far beyond chance levels. Along Calle Ocho, the Cuban economy's main street, Cuban-owned firms bought the semifinished products of other Cuban firms, worked on the products themselves, and then passed the improved products on to other Cuban firms, which finally sold it at retail. These ethnic linkages permitted Cuban firms to extract maximum value from every dollar of final product ultimately sold to non-Cubans. As befits an important idea, analogous enclave situations are easily spotted once someone points out the basics. Tourists can see an analogous process operating on San Francisco's Fisherman's Wharf, where Italian fishermen sell their catch to Italian restaurants that sell seafood meals to visitors. In this manner, San Francisco's Italian ethnic economy monopolizes the whole value of the restaurant business even though the tourist industry has a competitive, small business structure.

The vertical and horizontal linkages that gave the enclave economy its quasi-monopolistic advantage derived ultimately from what social scientists now call social capital, a concept we define and use in chapters 4 and 5. Although Wilson and Portes did not utilize that terminology, which had not yet been invented, they did report that Cuban merchants built upon ethnic networks, ethnic trust, and common language for reasons of expediency. That is, Cuban business owners dealt with other Cuban business owners because they already knew and trusted them and could speak to them in their native language. These straightforward and practical business advantages were easy to understand without requiring observers to postulate a Cuban economic conspiracy to bilk or defraud consumers. At this point, Wilson and Portes intersected with the core argument of the ethnic economy according to which ethnic economies evolve naturally because of their operating advantages. True, Wilson and Portes's arguments about the quasi-monopolistic advantages of ethnic economies would have been familiar to African Americans, whose popular economic thought had long stressed like arguments, but their income recapture arguments had never before been empirically traced in formal input-output analysis as Wilson and Portes did.77

Portes 78 later expanded the enclave labor market to include the self-employed, the first time dual labor market theorists had done so. According to Portes, immigrant enclaves had two characteristics: spatial clustering, and numerous immigrant-owned business firms that employed many coethnic workers.79 Even though his new conceptualization included the self-employed, then a conceptual innovation, Portes's emphasis was still upon the numerous workers they employed, not upon the self-employed themselves.80 This emphasis upon numerous workers was a product of the labor market segmentation tradition. It ignored the question of what was to be done with the self-employed who employed no workers.

Portes and Bach81 returned to Portes's82 earlier definition of an enclave economy. However, they83 operationalized the Cuban enclave economy as "all men indicating employment in firms owned by Cubans," a definition that excluded
the self-employed. Later, aggregating self-employed and their coethnic employees, who were not further distinguished, their final operationalization actually followed Bonacich and Modell's earlier definition of the ethnic economy even though it contradicted the definition of enclave economy they offered. In this book, the ethnic enclave economy empirically consisted of the self-employed plus their coethnic employees in Miami. They compared Cubans in the enclave economy with Cubans in the primary and secondary sectors of the labor market in respect to money returns on human capital. They found that after 6 years of residence in the United States, the Cuban immigrants' money returns on occupational prestige and knowledge of English were more favorable in the enclave than in the primary labor market.

Turning to Mexican immigrant men, whom they also followed longitudinally from their arrival, Portes and Bach found no enclave economy at all, a telling result. Cubans had an ethnic enclave economy, and Mexicans did not. Of course, Portes and Bach found self-employment among Mexican immigrants in their sample. In 1979, 5.5 percent of Mexican immigrant men in their sample were self-employed compared with 21.2 percent of Cuban men. However, Mexican self-employment did not create a small immigrant enclave economy to contrast with the Cubans' big one. Such a position would have coincided with the treatment one would have expected from the perspective of Bonacich and Modell's concept of ethnic economy. Instead, they declared that Cubans had an enclave economy and Mexicans did not. As a result, Mexican immigrants had to take their chances as "low wage labor in the open economy" whereas Cubans operated in a "setting dominated by immigrant business networks." The non-existence of a Mexican enclave economy is clear evidence that Portes and Bach's concepts were not the same as those introduced earlier by Bonacich and Modell.

Although Portes and Bach cited Bonacich and Modell, thus indicating familiarity with this earlier work, their treatment of Mexicans diverged from the concept of ethnic economy because they wanted to propose something different. As Portes and Bach conceived it, the ethnic enclave economy was not just the coethnic self-employed and their coethnic employees. It also consisted of a locational cluster of business firms whose owners and employees were coethnics and whose firms employed a "significant number" of coethnic workers. From this definition, three corollaries followed that excluded the Mexicans from an ethnic enclave economy even though Mexicans clearly had an ethnic economy. First, unlike Cubans in their sample, 90 percent of whom resided in Miami, Mexicans in their sample were more evenly dispersed across the Southwest. Therefore, their ethnic economies were small in scale and could not derive the same benefits from locational aggregation. Second, the scattered Mexican ethnic economies lacked a huge locational cluster like Miami's Little Havana. Third, the Mexican self-employed did not employ a significant number of coethnics in their firms, most of which had no employees at all. For these reasons, Mexicans had an ethnic economy as Bonacich and Modell had defined it, but they did not have an ethnic enclave economy as Portes and Bach defined it.

When attempting to define the ethnic enclave economy, Portes and Bach had in mind the Cuban economy of Miami. One-half the population of Miami is of Cuban origin. Miami's Little Havana contained (still contains) a conspicuous concentration of Cuban-owned firms in which many Cuban employees work. The concentration of the firms in a Cuban business district was conceptually important because of the threshold benefits supposedly derived therefrom. That is, Wilson and Portes and Wilson and Martin had argued that the Cuban ethnic enclave economy was hyperefficient because of vertical and horizontal integration, ethnically sympathetic suppliers and consumers, pooled savings, and rigged markets. Not sharing in this agglomeration benefit, Cuban-owned firms outside the Cuban enclave presumably did not derive any spin-off benefit from their location, so the enclave concept appropriately excluded such firms and their Cuban employees. Indeed, the alleged agglomeration effects of the Cuban ethnic enclave in Miami explained why neither Miami's blacks nor immigrant Mexicans could obtain equivalently high rates of self-employment as did immigrant Cubans.

After much initial confusion during which the concepts were wrongly equated, the literature now distinguishes an ethnic economy from an ethnic enclave economy. These are different concepts. As the concept of ethnic enclave economy matured, the term came to stand for the economic advantages of locational clustering. Economic advantage means the ability of the enclave economy to generate more money for participants than the participants would have been able to obtain without that enclave structure to support them. At this point, the ethnic enclave economy turned into a special case of the ethnic economy, the current view. It is a special case because every immigrant group or ethnic minority has an ethnic economy, but only some ethnic economies are territorially clustered and confer quasi-monopolistic economic advantage. In other words, an ethnic enclave economy requires locational clustering of firms, economic interdependence, and employees, whereas an ethnic economy requires none of these. As a result, researchers conclude that ethnic enclave economies are fewer than ethnic economies.

When ethnic firms are not clustered conspicuously in a neighborhood like Miami's Little Havana, or when firm owners have no employees, or when vertical and horizontal integration do not obtain, then an ethnic economy exists that does not fit the concept of an ethnic enclave economy. Since all three conditions are rarely obtained, the concept of ethnic enclave economy fits far fewer cases than does the concept of ethnic economy. The case of Iranians in Los Angeles illustrates the distinction. The Iranians' ethnic economy is very large. It occupies 61.3 percent of Iranian heads of households in the labor force. However, the Iranian ethnic economy is not an ethnic enclave economy for two principal reasons. First, the Iranian firms are virtually unclustered in space just as Iranian residences are unclustered. The Iranian ethnic economy lacks a business core analogous to Chinatown or Little Havana. Second, the Iranian firms are heavy on owners, but light on coethnic employees. Therefore, the ethnic enclave economy's emphasis upon relative wages misses the main economic effect of the ethnic economy.
INTERACTIONISM

The textbook explanation of entrepreneurship has long maintained that entrepreneurship has a demand side as well as a supply side. That is, the number of entrepreneurs anywhere and their characteristics depend simultaneously upon what customers want and what provider groups will supply. Here what the customers want to buy stands for the demand side of the explanation, and what the provider groups offer stands for the supply side. Both sides belong to a full explanation. However, as the ethnic economy literature developed, emphasis had fallen heavily upon the supply side to the neglect of the demand side. This emphasis made sense in terms of the new subject's need to prove the existence of intergroup variation on the supply side in order to legitimate the whole discussion. Additionally, the practice of holding some factors constant in order to ascertain the effects of others is both essential and legitimate in social science. Nonetheless, some researchers complained that the ethnic economy literature neglected the demand side. They asked for balanced explanations that included both the demand side and the supply side.

In a pioneering statement of this complaint, Waldinger, Ward, and Aldrich observed that a "common objection to cultural analysis" was its lack of attention to "the economic environment in which immigrant entrepreneurs function." They recommended "an interactive approach" that examined the "congruence between the demands of the economic environment and the informal resources of the ethnic population." Since the time they wrote this, that reaction has achieved the strength of a movement of thought in the ethnic economy literature, within which it is now axiomatic that ethnic entrepreneurs emerge from the interaction of supply and demand. At first, this conclusion sounds like the preswar textbook orthodoxy rewarmed. However, the interaction approach does not represent a return to the older textbook generalization that supply and demand coproduce entrepreneurs. That older view makes no reference to the articulation of supply and demand, only insisting that both participate in a complete explanation. In contrast the interaction hypothesis specifies how supply and demand codetermine entrepreneurship—not just that they do so. Specifically, interactionism claims that the entrepreneurial performance of groups depends upon the fit between what they have to offer and what a market requires. The better the fit, the more entrepreneurs; and the same group can experience a good fit in some places and a poor fit in others. Thus, the Chinese operate proportionally more restaurants in New York City where numerous Jews like Chinese food than they do in cities whose predominantly non-Jewish consumers do not share the enthusiasm. This example suggests that the number of Chinese restaurants in any place is a joint product of the number of Chinese in the place and the local public's appetite for Chinese food. In fact, interactionism maintains that every group's entrepreneurship depends upon the fit between what it can do and what the local market demands.

Interactionism imposed a new and stringent methodological constraint upon ethnic economy research. In order to expose supply and demand factors, interactionist research designs must permit simultaneous variation in supplier groups and in demand environments. Some preinteractionist research met this design requirement; most did not. For example, in their research on Asian entrepreneurs in three British cities, Aldrich, Jones, and McEvoy compared the Asians with a sample of white entrepreneurs in respect to directly measured practices thought to reflect ethnic business style. They found few differences between Asians and whites in respect to resource endowment but important differences in business environment among the three cities, with all groups demonstrating higher rates in some than in others. Reviewing the evidence, they concluded that "immigrant business activity" was more shaped by internal than by external forces. "The opportunity structure of the receiving society outweighs any cultural predisposition towards entrepreneurship." Absent simultaneous variation in both supply and demand conditions, this judgment would not have been permissible.

However, most early, interaction-seeking research stumbled over this methodological requirement. For example, in his study of New York City's garment industry, Waldinger stressed the advantages of a balanced treatment that acknowledges "opportunity structures" as well as cultural influences. In this regard, Waldinger mentioned the economic advantages that lured immigrant Dominicans and Chinese entrepreneurs into this industry. These economic advantages included low returns on economies of scale, instability and uncertainty of product demand, small and differentiated product markets, agglomeration advantages, access to cheap labor, and vacant niches caused by exodus of ethnic white predecessors. These demand-side attractions did not negate what Waldinger called the "predispositions toward entrepreneurship" of the immigrants, and Waldinger acknowledged the predispositions as well as the economic incentives. Waldinger regarded this conclusion as a balanced one that did justice to supply as well as demand influences.

However, Waldinger's research varied only groups. It did not simultaneously vary demand environments. His multiple groups—one industry design only permitted inductive generalizations about the influence of supply-side resources upon entrepreneurship. It did not permit generalizations about the influence of demand environment, a constant. From a formal point of view, therefore, Waldinger's balanced conclusions were of unequal value. On the one hand, the comparison of Chinese and Dominicans permitted conclusions about the influence of different supply profiles on the groups' entrepreneurship. On the other hand, Waldinger's design did not authorize his conclusions about demand.

To solve the methodological problem, balance-seeking research turned to multigroup, multilocality research designs. In these designs, a plurality of ethnorracial groups represented the supply side, and a plurality of localities the demand side. In the first of these interactionist designs, Light and Rosenstein examined
producing terminological confusion. The first was probably Reitz, who defined the ethnic economy as any work context in which coethnics utilized a foreign language. Others have wanted to equate the ethnic economy to businesses in which buyers and sellers are coethnics. When ethnic sell to or buy from noncoethnics, the transaction takes place outside the ethnic economy. The ethnic economy would then exist only when ethnic buy from and sell to coethnics.

Jiobu defined "ethnic hegemonization" as a combination of industrial clustering and industrial power. He illustrated the conception by reference to Japanese Americans in California agriculture. Because they were not only numerous in this industry, but heavily clustered within it, especially in strawberries, the Japanese Americans could raise the price of their farm commodities by withholding crops from the market. Therefore, Japanese farmers exercised economic power, and were not just the price takers of economic theory. Successful minorities, Jiobu generalized, "have to hegemonize an entire economic area, both horizontally and vertically." What is noteworthy is that Jiobu referred to an industrial context in which Japanese Americans had ownership authority, but his concept of hegemonization stressed their power, based on their numbers and clustering, not their ownership authority.

About the same time, Light and Bonacich found that Koreans in Los Angeles were heavily clustered both as employees and as self-employed. The heaviest cluster was in soft drinks, in which Korean owners represented more than one-third of all dealers even though Koreans were only 5 percent of all business owners in Los Angeles County. More generally, the clustering of Koreans in self-employment was greater than the clustering of Koreans in wage employment (Table 1.1). Korean employees worked in just 64.7 percent of industries because 35.3 percent of industries had no Korean employees at all. On the other hand, 100 percent of self-employed Koreans worked in just 28.5 percent of industries. A full 71.5 percent of Los Angeles industries contained no self-employed Koreans at all. To equalize the distribution of Koreans among Los Angeles industries,

| Table 1.1: Korean Representation in Employment and Self-Employment, 232 Industries of Los Angeles County, 1980 (in Percentages) |
|-----------------|-----------------|
| Employees       | Self-employed   |
| No Koreans in industry | 35.3  | 71.6 |
| Up to 1% Korean | 1.5  | 7.8  |
| More than 1% Korean | 63.4 | 20.7 |
| Total           | 100 | 100  |
| N               | (232) | (232) |

35.3 percent of Korean employees would have had to move into industries in which no Koreans were actually employed. Conversely, to equalize the distribution of Koreans among the self-employed, 71.5 percent would have had to move into industries that actually contained no Korean firms. The industrial clustering of Koreans, the authors noted, “conferred a potential for moderating competition, exchanging information, and mutual aid.”

Zhou and Logan\textsuperscript{115} approached the ethnic economy of the Chinese through census data. They first identified industries in which Chinese were overrepresented, and defined the ethnic enclave economy as the sum of these industries. Model\textsuperscript{16} used a similar approach to compare Chinese and Cuban ethnic economies. Somewhat later, Logan, Alba, and McNulty\textsuperscript{117} redefined an ethnic economy as “any situation where common ethnicity provides an economic advantage.”\textsuperscript{118} Possible situations included relations among coethnic owners, relations between owners and coethnic employees, and relations among coethnic employees in the mainstream economy. Since this definition of ethnic economy included wage earners in the mainstream, it was broader than what Bonacich and Model had proposed. In practice, however, Logan, Alba, and McNulty crafted census-based measurements that mimicked the Bonacich and Model concept of ethnic economy. Studying 10 ethnic groups in 17 metropolitan areas of the United States, they declared that joint overrepresentation of coethnic workers and coethnic employers in any industry would be interpreted as an ethnic-controlled industry, and the sum of the ethnic-controlled industries would represent the ethnic economy. Since the U.S. Census does not provide data on the ethnicity of business owners and of their employees, the authors had to examine clustering rather than ownership. Thus, finding Chinese heavily overrepresented as restaurant owners and restaurant employees, Logan, Alba, and McNulty concluded that the restaurant industry fell within the Chinese ethnic economy. Theirs is a legitimate innovation because issues of data availability and quality impinge very strongly on all social science debates. Their compromise made it possible to count the number of ethnic economies in major cities from existing census data.

To redefine the ethnic economy as ethnic economic advantage invites dialogue with anyone who asserts that ethnicity never confers economic advantage. Timothy Bates\textsuperscript{115} makes this claim, alleging that ethnicity is economically neutral, never advantageous. Other economists now dispute this view.\textsuperscript{120} However, on Bates’s ultraconservative view, the “bedrock” economic resources are only wealth and human capital.\textsuperscript{121} People who enjoy wealth, education, and occupational skills prosper thanks to these resources alone. Ethnicity never contributes anything additional. From our perspective, this view is wrong, and rejecting it is a major purpose of this entire book. Just for starters, ethnic entrepreneurs usually cluster in the same occupations and industries.\textsuperscript{122} Clustering confers market power above and beyond individual wealth and human capital. For example, Korean business owners monopolized the wig business before federal prosecutors brought suit under the Sherman Anti-Trust Act. While they enjoyed their monopoly, Korean business owners excluded non-Koreans from the wig industry, and raised prices of wigs to consumers.\textsuperscript{123} Again, Japanese farmers were able to raise prices for strawberries thanks to their clustering.\textsuperscript{124} Cases like these are very common, and all illustrate an ethnic economic resource, market power, that does not depend upon the business owners’ human capital or wealth.

Secondly, the redefined concept of ethnic economy (as ethnic advantage) opens discussion of how ethnic employees most advantageously operate outside the ethnic economy, an issue that Bonacich and Model’s concept cannot raise, much less address. For example, what if government employees control hiring for government jobs, but hire only their friends and relatives? These cases have happened with considerable regularity in American history.\textsuperscript{125} In a pluralistic society such as the United States, ordinary nepotism produces ethnic-based clustering. When, thanks to nepotism, coethnics get the jobs, noncoethnics are excluded. True, the intent is to advantage friends, relatives, and coethnics rather than maliciously to injure outsiders—even if the effect is the same.\textsuperscript{126} In such a case, too, contrary to Bates, workers obtain economic benefit from their ethnicity above and beyond whatever their individual wealth and human capital confer.

Following Kessner and Model,\textsuperscript{127} who reached similar conclusions, Waldinger\textsuperscript{128} reminds us that exactly this arrangement has long prevailed in the municipal government of New York City.\textsuperscript{129} Waldinger studied the history of municipal employment in New York City in the twentieth century. He found that Italian, Irish, and Jewish immigrants obtained municipal employment through coethnic hiring networks. First, the immigrants established ethnic niches within government workplaces, occupations, and industries. For example, construction became an Irish niche, sanitation an Italian niche, and school teaching a Jewish niche. Ethnic niches are just ethnic concentrations at high density.\textsuperscript{130} The economic success of white immigrants and their native-born descendants involved “finding a good niche and dominating it.”\textsuperscript{131} To dominate a niche meant to assure coethnic applicants of preferred access to jobs.

Very informal methods can obtain this end. An Irish contractor in Boston explained\textsuperscript{132} his hiring procedure in this manner: “A good number of building contractors drinks in the pub, and the lads comes in and they gives them work.” Since the Irish contractors drink in Irish-owned pubs, the lads are reliably Irish. Research recurrently reports that informal social contacts are the most frequent way in which people of all ethnoreligious backgrounds find work.\textsuperscript{133} Social networks also produce the best jobs. Moreover, once established in this way, ethnic niches are persistent.\textsuperscript{134} Lieberson and Waters\textsuperscript{135} found that white ethnics’ occupational clusters had persisted for 80 years and were still going strong. White ethnics did not own the municipal government of New York City, which employed them, but they managed to control employment in it.
After 1970, African Americans began to enter employment niches that upwardly mobile whites had exited, and they also began to compete with whites for access to government jobs that had once been the exclusive preserve of the whites, and to develop niches of their own. Indeed, Boyd proposes that opportunities for blacks in the public sector siphoned away entrepreneurially endowed workers who would otherwise have started businesses. Although this claim has not been proven beyond the shadow of a doubt, the preponderance of government employment among African Americans is sufficiently strong to create at least a suspicion. Table 1.2 compares the sectoral employment (private, government, self-employment) of African Americans, non Hispanic whites, and selected others in Los Angeles. Heavily immigrant, noncitizens, and lacking political influence, the Asian and Hispanic groups have a much smaller share of government employment than do non-Hispanic whites, who, in turn, obtain only half as much government employment as do blacks.

When coethnic workers control hiring, pay, and working conditions on the job, whether through numbers, trade unions, social networks, legal priorities, or any other advantage, they usurp the legal owners' titular authority to control those decisions. The employees thus obtain de facto control of someone else's property. It does not matter whether the usurpation affects a private corporation, such as the Bank of America, or a government agency, such as the city of New York. Wherever they arise, ethnic niches confer some rights of ownership, but they do not require coethnics to own the premises, industries, or occupations whose hiring, wages, and working conditions they control. Lewin-Epstein and Semyonov even raise the possibility of an ethnic community "gaining hegemony" over portions of the public sector. At this point, business ownership and job control become equivalent in respect to the hiring advantage they convey. An ethnic-owned firm that employs 99 coethnics provides the same employment to coethnics as a state agency that employs 100 coethnics even though the employees do not own the state agency. Small and medium businesses are rarely unionized and they overwhelmingly hire coethnics through word of mouth recruitment. Worker control is uncommon in the ethnic-owned economy. Giant corporations and public bureaucracies are the principal sites in which coethnics usurp de facto hiring authority from owners or managers who are not coethnic.

It is important to note that not all ethnic niches yield an ethnic-controlled economy. If coethnics cluster in a firm or government agency but do not, as ethnic, influence wages, hiring, working conditions, and the like, then an ethnic niche exists, but membership yields no control.

As we wish to address the broader advantages of ethnicity in the economy in this book, not just the advantages of ethnic ownership, important as those are, we require the conceptual means to do it. The Bonacich-Modell concept of the ethnic economy does not provide sufficient means. Therefore, we propose to rename what Jiobu called "ethnic hegemonization," what Logan, Alba, and McNulty called the ethnic economy, and what Woldinger and others have called ethnic niches. Instead, we propose the term ethnic-controlled economy to encompass all these concepts, and, indeed, all situations and sectors in which coethnic employees (not owners) exert significant and enduring market power in the general economy, usually because of numbers, clustering, and organization, but also, when applicable, because of external political or economic power. In contrast to the ethnic-controlled economy, defined previously, we wish now to rechristen what Bonacich and Modell called the ethnic economy as the ethnic ownership economy. These terminological redefinitions permit us to contrast an ethnic economy with its basis in property right, the ethnic ownership economy, with an ethnic economy whose basis is de facto control based on numbers, clustering, and organization, the ethnic-controlled economy (Table 1.3).

### Table 1.2 Sectoral Distribution of Ethnocultural Groups in Los Angeles, 1990 (in Percentages)

<table>
<thead>
<tr>
<th>Groups</th>
<th>Private</th>
<th>Government</th>
<th>Self-employment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Hispanic white</td>
<td>71.7</td>
<td>12.2</td>
<td>16.2</td>
<td>100</td>
</tr>
<tr>
<td>Black</td>
<td>69.2</td>
<td>23.7</td>
<td>7.1</td>
<td>100</td>
</tr>
<tr>
<td>Chinese</td>
<td>73.0</td>
<td>9.8</td>
<td>17.2</td>
<td>100</td>
</tr>
<tr>
<td>Korean</td>
<td>60.1</td>
<td>4.6</td>
<td>35.3</td>
<td>100</td>
</tr>
<tr>
<td>Mexican</td>
<td>86.3</td>
<td>7.2</td>
<td>6.5</td>
<td>100</td>
</tr>
<tr>
<td>Salvadoran</td>
<td>90.9</td>
<td>3.0</td>
<td>6.1</td>
<td>100</td>
</tr>
</tbody>
</table>


### Table 1.3 Ethnic Economies

<table>
<thead>
<tr>
<th>Concept</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethnic economy</td>
<td>Self-employed, employers, unpaid family workers, and coethnic employees</td>
</tr>
<tr>
<td>Ethnic enclave economy</td>
<td>An ethnic economy that is clustered around a territorial core</td>
</tr>
<tr>
<td>Ethnic ownership economy</td>
<td>An ethnic economy</td>
</tr>
<tr>
<td>Ethnic-controlled economy</td>
<td>Significant and persistent economic power exercised by coethnic employees in the mainstream economy</td>
</tr>
</tbody>
</table>
Our reasons for renaming are several. First, our terminology reduces intellectual clutter without losing content. The ethnic-controlled economy includes all manifestation of economic power based on number, organization, and clustering regardless of exactly what control employees exert. For example, employees may control hiring, wages, working conditions, training, or all of these. Second, different concepts should have different names; otherwise, one sows confusion. Third, Bonacich and Modell’s definition of ethnic economy has a valid and legitimate purchase that we retain. Although we change the concept’s name to ethnic ownership economy, we leave the content unchanged. Fourth, new terminologies clarify and highlight the latent distinction between ownership and control that has thus far eluded precise identification in the ethnic economy literature. Finally, we believe that the new terminologies invite and open up research questions that will profitably occupy research for some time.

SUMMARY AND CONCLUSION

We have identified three related concepts that derive from the core literature, but that reflect different aspects of the ethnic economy. Of these, the oldest is what we have rechristened the ethnic ownership economy. The ethnic ownership economy consists of business owners and their coethnic helpers and workers. The businesses owned are small and medium in size. This concept permits comparison of the economic integration of ethnic groups now and in the past, in the United States and abroad. The ethnic ownership economy’s boundaries distinguish where and how much a group has penetrated a host economy, taking the jobs it made available, and where, how, and how much each group has grafted new firms and jobs onto a host economy. A key feature of any group’s economic strategy, this balance between self-employment and wage employment affects the ability of groups to accelerate economic mobility or to evade unemployment. Here the process of ethnic succession in the general labor market creates a baseline of economic mobility against which it is possible to explain why some groups have gone up faster than expected and others slower. The second concept is the ethnic enclave economy. An ethnic enclave economy is an ethnic ownership economy that is clustered around a territorial core. This concept invites inquiries about the consequences of territorial clustering. Existing literature proposes that territorial clustering permits ethnic communities to capture a higher proportion of sales than would be possible from unclustered firms. In effect, the ethnic enclave economy obtains economic strength that small business firms normally lack, but that monopolies enjoy. The added economic strength accrues to the advantage of the ethnic community, whose workers obtain extra jobs and profit as a consequence. This bonus accelerates their economic mobility above and beyond what unclustered ethnic economies provide.

Finally, we have identified a third sector, the ethnic-controlled economy. The ethnic-controlled economy refers to industries, occupations, and organizations of the general labor market in which coethnic employees exert appreciable and persistent economic power. This power usually results from their numerical clustering, their numerical preponderance, their organization, government mandates, or all four. The ethnic-controlled economy is completely independent of the ethnic ownership economy, and its participants exert de facto control, not ownership authority. Control permits coethnics to secure more and better jobs in the mainstream than they otherwise would, to reduce unemployment, and to improve working conditions. In this way, the ethnic-controlled economy accelerates the economic mobility of participants as well as the ethnic group to which they belong.

If we call these three together the ethnic economies, to emphasize their relatedness, their contrast is with the mainstream labor market in which isolated ethnic employees have jobs outside ethnic economies. In these mainstream jobs, coethnics are unclustered, and they exercise no influence as coethnics. Mainstream employment results when immigrants and ethnicstions fan out in pursuit of individual economic opportunity. Panning out is exactly what assimilation theorists expected. In the mainstream labor market, immigrants and ethnicstions get the deal American society offers individuals, and this deal may include discrimination from other people’s ethnic-controlled economies. For this reason, the general labor market is a more treacherous environment than its enthusiasts acknowledge. Mainstream employment is obviously very important in fact as well as in theory, and we do not ignore it. However, the mainstream labor market has for too long been interpreted as the only way in which ethnicities and immigrants can obtain income.

Peter Li asks whether self-employment offers better earning opportunities than wage work, and concludes that it depends on what type of self-employment one-specifies. True enough, but the answer also depends, we suggest, on whether employees are in an ethnic-controlled economy or in the general labor market. To assume, as have assimilation theorists, that everyone works in the general labor market is to oversimplify. The prevailing simplification ignores all three ethnic economies in the interest of a homogeneous econospace within which uniform assimilation occurs at a constant speed, a Fordist image that has outlived its usefulness. No wonder that assimilation theory cannot explain why some ethnic and immigrant groups make faster economic progress than others, and why, very generally, intergroup economic outcomes are as divergent as they are. On the whole, sociology’s pedestrian answer has been intergroup inequalities of human capital, no doubt a meritocratic aspect of the problem. Still, it is clear that the three ethnic economies powerfully affect economic attainment of inequality and human capital endowments. Progress in understanding unequal economic outcomes requires acknowledgement of the diversity in economic status that actually exists.
CHAPTER 2

The Size of Ethnic Economies

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One measure of the size of ethnic economies is how many people work in them. The population of an ethnic ownership economy consists of self-employed, employers, employees of coethnic employers, and unpaid family workers. An ethnic-controlled economy consists of coethnic employees outside the ethnic ownership economy who, thanks to their clustering, numbers, organization, political influence, or all four, exercise significant and enduring market power in workplace, occupation, or industry. Ethnic-controlled economies considerably expand the population of ethnic economies beyond what ethnic ownership economies alone would create. The sum of any group's ethnic ownership economy plus its ethnic-controlled economy gives the proportion of coethnic workers whose employment is outside the general labor market. The sum of all the ethnic groups' ethnic ownership economies and ethnic-controlled economies gives the share of the total labor force that works outside the general labor force.

These magnitudes are not easy to estimate. In particular, measuring ethnic-controlled economies encounters the difficulty of evaluating real market power from external indicators such as ethnic clustering. Although occupational and industrial clustering create a basis for market power, neither guarantees it. Nonetheless, the wisdom of investigating them any farther depends upon the probable
size of ethnic economies. If ethnic economies contain hardly any workers, then increased efforts to improve their measurement might not be cost-effective. On the other hand, if ethnic economies are probably large, possibly even larger than the general labor market, then the case for improving their measurement is compelling. In this chapter, using available materials, we estimate the size of aggregate and group-specific ethnic economies and indicate their probable importance.

ETHNIC OWNERSHIP ECONOMIES

The higher the share of an ethnic ownership economy in any group’s total labor force, the more employment that ethnic ownership economy provides coethnics and the less the general labor market provides. In an extreme case, when an ethnic group is an outcast or pariah, its ethnic ownership economy might provide 100% of all employment that coethnics obtain. In such a case, however, wretched their livelihoods, the coethnic coethnics owe all employment entirely to their own ethnic ownership economy. At the opposite extreme, an ethnic economy might employ no coethnics. In such a case, an ethnic ownership economy contributes nothing to the employment of coethnics, whose entire support would depend upon the jobs they find in the general labor market or upon the ethnic-controlled economy. Indeed, in such a case an ethnic ownership economy would not exist at all.

In the American context, ethnic ownership economies only reach either limit, 100% or zero, when ethnic groups are quite small. Otherwise, every ethnoregional group has an ethnic ownership economy. No uncertainty attends this issue, but uncertainty does attend estimates of the actual population of various groups’ ethnic ownership economies, and these uncertainties affect their presumptive importance. After all, if ethnic ownership economies are tiny, why study them? The task is to identify which and how many groups actually have significant ethnic ownership economies, where significant means too large to ignore. In turn, too large to ignore means that, when people ignore ethnic economies, they seriously distort reality. If ignoring them does not seriously distort reality, then we may wish to ignore them out of convenience.

The hazards of ignoring ethnic ownership economies are easy to illustrate. Suppose 50% of some ethnoregional or immigrant group work in the ethnic ownership economy, but analysts ignore the topic, concentrating exclusively on coethnic employees in the general labor market. In that case, analysts would wrongly impute to the whole group the earnings modality that actually characterized only half the group. We would really have a proper idea of how this group earns its living, a basic fact about any group, but, worse, we would have accepted misinformation as correct. This case is not speculative. In 1941, when war clouds were gathering, 56.2% of Japanese American men and 44.4% of Japanese American women worked in the ethnic economy. Actually, those estimates are low because some unknown share of persons listed as “wage and salary workers” also had Japanese American employers and so qualified as ethnic economy workers. In view of the large population of the Japanese American ethnic economy in 1941, no one could ignore the ethnic economy without seriously distorting how Japanese Americans were earning their bread.

Admittedly, the Japanese American ethnic economy was unusually large in 1940 relative to many other ethnic economies then and now. Moreover, in view of the decline in self-employment between 1940 and 1974, one might suppose that comparably large ethnic economies no longer exist. Indeed, we thought so ourselves at one time. A complete answer calls for data that systematically compare multiple ethnic economies now and then. Unfortunately, such systematic data are not available, partially because of the unexamined but prevailing assumption that ethnic ownership economies are small and insignificant. However, many contemporary ethnic groups do match and some even exceed the share of the labor force that the Japanese American economy enjoyed in 1940. Among Israelis in Los Angeles, Gold found a self-employment rate of 80%, a proportion far higher than the Japanese Americans had attained in 1940. Min found that 47.5% of Koreans in Los Angeles were self-employed and another 27.6% were their employees in 1989. Portes, Clark, and Lopez estimated that 20% of Cubans in Miami were self-employed, and another 30% worked in Cuban-owned businesses. Table 2.1 shows the population of the ethnic economies that existed among Iranians in Los Angeles in 1988. Overall, 56.7% of Iranians were self-employed, and another 4.6%

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Owners</th>
<th>Employees</th>
<th>Subtotal</th>
<th>General Labor Market</th>
<th>Employed</th>
<th>Unemployed</th>
<th>Subtotal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iranians</td>
<td>56.7</td>
<td>4.6</td>
<td>(330)</td>
<td>(36.8)</td>
<td>(208)</td>
<td>(43.8)</td>
<td>(66)</td>
<td>(538)</td>
</tr>
<tr>
<td>Armenians</td>
<td>44.5</td>
<td>9.5</td>
<td>(74)</td>
<td>(43.8)</td>
<td>(63)</td>
<td>(45.5)</td>
<td>(32)</td>
<td>(438)</td>
</tr>
<tr>
<td>Bahais</td>
<td>51.5</td>
<td>0.0</td>
<td>(34)</td>
<td>(45.5)</td>
<td>(32)</td>
<td>(3.0)</td>
<td>(22)</td>
<td>(370)</td>
</tr>
<tr>
<td>Jews</td>
<td>81.9</td>
<td>3.9</td>
<td>(133)</td>
<td>(3.0)</td>
<td>(22)</td>
<td>(1.9)</td>
<td>(9)</td>
<td>(155)</td>
</tr>
<tr>
<td>Muslims</td>
<td>46.1</td>
<td>3.3</td>
<td>(89)</td>
<td>(1.9)</td>
<td>(9)</td>
<td>(1.1)</td>
<td>1.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

of Iranians worked for them. These two groups created an ethnic economy that encompassed 61.3% of Iranians in Los Angeles.

However, when we disaggregate Iranians into four subethnic groups, we observe even higher self-employment rates. At the top, 81.9% of Jews from Iran were self-employed; another 3.9% of Jews from Iran worked for them. In all, nearly 86% of Iranian Jews worked in the ethnic economy. At the other extreme, 46.1% of Muslims from Iran were self-employed, and these Muslims employed another 3.3% of Iranian coreligionists, bringing the Iranian Muslim economy to 49.4% of their labor force. Clearly, in the cases of the Iranians, Koreans, and Israelis, some contemporary ethnic groups have built ethnic economies as large as the one the Japanese Americans operated in 1940. These cases prove that at least some contemporary ethnic economies are neither obsolete nor insignificantly small when compared with earlier ones.

Ethnic Ownership Economy of Individual Groups

For broad significance, the very best case would exist if all ethnic economies, even the smallest, were sufficiently large to require attention. In that case, ethnic economies would require consistent coverage. Such is the claim we make in this chapter. However, even if some or a few individual ethnic economies were too small to matter, the aggregate ethnic economies of all the ethnорacial and immigrant groups might nonetheless be significant. In that case, we should not ignore ethnic ownership economies in general just because the ethnic economy of some individual groups is insignificant. Finally, in the worst case, even if ethnic economies are generally insignificant and only a few groups had big ones, they could still be influential to at least these groups. In such a case, ethnic economies would be of limited and specific relevance but not of general relevance to the economy. This is probably the prevailing view in social science today, so, if we are right, ethnic economies are of more general importance than is generally recognized.

Getting away from the star cases, such as the Israelis, Iranians, and Koreans, we wish now to assess the broader significance of ethnic ownership economies of American ethnic groups. Star cases do not speak to the general importance of ethnic economies. The literature’s proctered emphasis upon the entrepreneurship stars in contrast with nonstars, a legitimate concern, caused some observers wrongly to conclude that the case for ethnic economies rests only upon the stars.

To evaluate the general importance of ethnic economies, we must first define a threshold of substantive significance at or above which ethnic economies are too big to ignore in the interest of convenience. Extrapolating a famous convention, we declare that threshold significance is reached when an ethnic ownership economy occupies 5% or more of any group’s civilian labor force. High significance is 10 to 19% of a group’s labor force, and extreme significance is 20% or more. Our task in this section is to evaluate how many American ethnic groups’ ethnic ownership economies actually reach any level of significance and which and how many do not. The box score thus obtained will help to measure the importance of the ethnic ownership economies in terms of their population.

Easy in principle, this task is difficult in practice because evidence is fragmentary. Fratocie and Meeks’s compiled a registry of self-employment rates of 50 American “ancestry groups” in 1980. Ancestry groups consisted of the foreign-born persons by birthplace plus native-born persons who claimed a single national origin in the same birthplace. Although they produced the most comprehensive list theretofore assembled, Fratocie and Meeks did not include African Americans, a major omission. Also, since Fratocie and Meeks’s registry excludes unpaid family workers and coethnic employees, both participants in an ethnic economy, their list understates the ethnic economy’s population by about one-third. On the other hand, because it includes rural and farm residents, it enhances the ethnic economies of farming groups, such as Scandinavians. This expansion occurs because agriculture has much higher self-employment rates than do urban occupations. Therefore, ancestry groups that cluster in agriculture will naturally display larger ethnic economies than urban groups.

Even so, Fratocie and Meeks’s list, when properly adjusted, permits a rough estimate of the individual ethnic economies that existed in 1980. To adjust their list, we estimate the ethnic economy’s coethnic employees at one-half the self-employed. For example, if the self-employed were 12%, we estimate that these self-employed persons employed another 6% of coethnic. We derive this rule of thumb from Table 2.2. This table shows the number of employees and employees in the three largest ethnорacial categories (Asian, Hispanic, black). On the aggregate, each ethnic minority owner employed about one employee, so if we assume that half the employees were coethnic, then the ethnic ownership economy would encompass the owners plus 50% of their employees. Our method estimates the percentage of each group’s labor force that worked in the ethnic economy in 1980. In turn, that estimate suggests among which and what percentage of ethnic groups surveyed the population of the group’s ethnic economy was below significance, significant, or highly significant.

Results are easy to summarize. For all 50 groups, the mean self-employment rate was 5.3%, just at the lower limit of significance. Of the 50 ethnic groups that Fratocie and Meeks identified, 26% had self-employment rates below 5%, our threshold of significance. Three-quarters of all ethnic economies identified in Fratocie and Meeks’s survey reached or surpassed our threshold. However, when we adjust for coethnic employees, adding one-half of the self-employment rate, only 16% still fell below significance. For all the groups aggregated individually without weighting them according to their actual size, the self-employment rate
TABLE 2.2 Ethnic Economies of Ethnoracial Categories, 1992

<table>
<thead>
<tr>
<th>Ethnic economies</th>
<th>Black</th>
<th>Asian and other</th>
<th>Hispanic</th>
<th>All persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners</td>
<td>620,912</td>
<td>606,426</td>
<td>771,708</td>
<td>17,283,143</td>
</tr>
<tr>
<td>Employees</td>
<td>345,193</td>
<td>860,408</td>
<td>691,056</td>
<td>27,403,974</td>
</tr>
<tr>
<td>Total</td>
<td>966,105</td>
<td>1,466,834</td>
<td>1,462,764</td>
<td>44,657,117</td>
</tr>
<tr>
<td>Civilian labor force, 1992 (thousands)</td>
<td>14,162</td>
<td>5,404</td>
<td>11,338</td>
<td>128,105</td>
</tr>
<tr>
<td>Ethnic economy as percentage of civilian labor force</td>
<td>5.6</td>
<td>19.2</td>
<td>9.9</td>
<td>24.1</td>
</tr>
</tbody>
</table>

\*Asians, Pacific Islanders, American Indians, and Alaska Natives.
\*Includes nonminorities.


was above 5% and, with the adjustment of estimated ethnic employees, the average estimated ethnic ownership economy was 8.1% in 1980. At the top, 58% of groups had ethnic economies that included 10% or more of the group's entire labor force. In sum, ethnic ownership economies were in the aggregate too big to ignore in 1980; they were also too big to ignore in three-quarters of the individual cases.

Another source of census evidence, more recent than that of Fratone and Meeks's survey, continues their tabulation of native and foreign persons combined. Table 2.3 assembles the self-employment rates of 12 ethnoracial groups, both native born and foreign born, for which the U.S. Census published data. However, this time the list includes African Americans, whom Fratone and Meeks did not include. Again we estimate ethnic economies from the self-employment rates given. Of the 12 ethnoracial groups compared in this table, 7 met or exceeded the threshold of significance strictly on the basis of self-employment and without taking into consideration the additional people who also worked in the ethnic ownership economy as employees or unpaid family laborers. Koreans displayed the highest self-employment rate in 1987.\footnote{Yoon} When we add estimated employment in the ethnic economy, 75% of groups reach or exceed the 5% threshold. Puerto Ricans, African Americans, and Hawaiians have estimated ethnic economies that remain below significance.

Yoon\footnote{Yoon} compiled a list of 99 ancestry groups from the U.S. Census of 1990. Yoon's list included foreign-born and native-born persons. On Yoon's list the mean self-employment rate was 10.2%, and the mean estimated ethnic economy was 15%. Of the 99 ancestry groups, only 4 ethnic ownership economies failed to reach 5%, our minimum threshold. At the other extreme, 56 ancestry groups had estimated ethnic economies that exceeded 15% of the labor force. Three of Yoon's ancestry groups (Koreans, Israelis, and Palestinians) had ethnic ownership economies that exceeded 30% of their total labor force. Yoon's results suggest that ethnic economies were generally larger than the ones Fratone and Meeks had measured in 1980, a decade earlier. We believe that, just as these data suggest, ethnic economies did increase in the United States between 1980 and 1990, just as they did in Australia and Europe.\footnote{Yoon}

Using published data, we assembled a list of 37 foreign-born groups from the 1990 U.S. Census. The list shows the male, female, and total self-employed and unpaid family workers of each national origin group as a percentage of that group's labor force in 1990. To obtain comparability with our analysis of Fratone and Meeks's 1980 evidence, we added the same estimate for the coethnic employees that we had added to Fratone and Meeks's earlier data. When combined with the total self-employed and unpaid family workers, this estimate yields an estimated percentage of each group's labor force that worked in the ethnic economy in 1990. Table 2.4 shows the results.

TABLE 2.3 Business Ownership of Selected Ethnoracial Minorities in the United States, 1987

<table>
<thead>
<tr>
<th>Ethnic minority</th>
<th>Percentage owners</th>
<th>Estimated employees</th>
<th>Ethnic economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korean</td>
<td>19.0</td>
<td>9.5</td>
<td>28.5</td>
</tr>
<tr>
<td>Asian Indians</td>
<td>12.6</td>
<td>6.3</td>
<td>18.9</td>
</tr>
<tr>
<td>Japanese</td>
<td>11.5</td>
<td>5.8</td>
<td>17.3</td>
</tr>
<tr>
<td>Cuban</td>
<td>10.8</td>
<td>5.4</td>
<td>16.2</td>
</tr>
<tr>
<td>Chinese</td>
<td>10.4</td>
<td>5.2</td>
<td>15.6</td>
</tr>
<tr>
<td>Vietnamese</td>
<td>9.5</td>
<td>4.8</td>
<td>14.3</td>
</tr>
<tr>
<td>European Spanish</td>
<td>9.2</td>
<td>4.6</td>
<td>13.8</td>
</tr>
<tr>
<td>Filipino</td>
<td>5.1</td>
<td>2.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Mexican</td>
<td>3.9</td>
<td>2.0</td>
<td>5.9</td>
</tr>
<tr>
<td>Puerto Rican</td>
<td>2.6</td>
<td>1.3</td>
<td>3.9</td>
</tr>
<tr>
<td>African American</td>
<td>2.2</td>
<td>1.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Hawaiian</td>
<td>1.6</td>
<td>0.8</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Of the 37 national origin groups in the table, 27% had total self-employment rates below 5%. When we add an estimate of coethnic employees to the self-employed, only 5.4% (2 groups) of the 37 groups still had ethnic economies below 5%, our threshold of significance. About 95% of foreign nationalities had ethnic economies that included at least 5% of their total labor force. Of the 37 foreign-born groups, 43% showed ethnic economies between 5 and 10% of their labor force, 46% showed ethnic economies between 10 and 20% of their total labor force, and 5% had ethnic economies that exceeded 20% of their total labor force. The mean ethnic economy of all the foreign born was 11.1% of the total labor force, and the median was 10.4%.

Table 2.4 also compares the self-employment rates of immigrant women and men. The men's self-employment rate usually exceeded the women's. However, women's self-employment was not inconsequential. In 8 of the 37 immigrant groups, the women's self-employment rate equaled or exceeded the men's. Additionally, if less than that of the men in their own group, the self-employment rate of many women was higher than that of noncoethnic men. For instance, the self-employment rate of Korean women exceeded the self-employment rate of all but the Korean men. Similarly, the self-employment rate of Iranian and French women exceeded the self-employment rate of all but the Italian, Soviet, German, Yugoslav, and Canadian men. One should also read the total self-employment rate as a product, in part, of the sex ratio of the group. That is, female-preponderant groups would normally have slightly lower self-employment rates than male-preponderant groups.14

Aggregated Ethnic Economies

Although this evidence shows that the ethnic economies of about three-quarters of all ethnic groups enlist a significant share of the group's labor force, the ethnic economies of two very big groups did not always reach significance. The two groups were Mexicans and blacks.15 Yoon's16 estimates of both groups' ethnic ownership economy exceeded ours. Yoon found a Mexican ancestry economy of 8.4% compared with our estimate of 5.9%. Yoon also estimated the African American ancestry ethnic ownership economy at 5.6%, compared with our estimate of 3.3%. Our estimates put the African American and Mexican ethnic ownership economies below the threshold of significance, whereas Yoon's shows them above the threshold but still small. Without quibbling about the difference, one wonders whether, if all the minority ethnic groups were aggregated, the small ethnic ownership economies of Hispanics and blacks, the two biggest categories, would not reduce the aggregate ethnic ownership economy of all minority groups. If so, a basis would exist for ignoring ethnic economies, at least in studies that involve generalizations about aggregated minority groups.

Fortunately, official statistics of unusual quality are available to assess this issue. Table 2.5 shows the number of firms and the number of employees for black,
TABLE 2.5 Minority-Owned Firms in the United States, 1987

<table>
<thead>
<tr>
<th></th>
<th>Number of firms</th>
<th>Number</th>
<th>Percentage of all firms</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blacks</td>
<td>424,165</td>
<td>70,815</td>
<td>16.7</td>
<td>220,464</td>
</tr>
<tr>
<td>Hispanics</td>
<td>422,373</td>
<td>89,908</td>
<td>21.3</td>
<td>264,846</td>
</tr>
<tr>
<td>Asian and Pacific Islanders</td>
<td>355,331</td>
<td>92,718</td>
<td>26.1</td>
<td>351,345</td>
</tr>
<tr>
<td>All minorities</td>
<td>1,213,750</td>
<td>248,149</td>
<td>20.4</td>
<td>836,483</td>
</tr>
</tbody>
</table>

*Includes groups not shown separately.


Asian, and Hispanic groups. We treat firms as equivalent to owners. This treatment understates the true number of owners because each firm is counted only once, whereas in reality some firms have multiple owners. Similarly, we estimate that half the employees of each firm were coethnics. Waldinger declares that ethnic employers prefer coethnic employees for unsentimental reasons, not just group chauvinism. A 50% estimate of coethnics among employees is realistic and even conservative in light of the literature.

Table 2.2 shows much variation among the ethnoracial categories in respect to the share of their total labor force that was in their ethnic ownership economy. In the Asian category, which encompasses Pacific Islanders and indigenous peoples, the ethnic economy included 19.2% of the labor force. Among Hispanics, a hodge-podge of Spanish-speaking groups, the ethnic economy included 9.9% of the labor force. Among African Americans, 5.6% worked in the ethnic economy. When the three minority categories are aggregated, their average ethnic economy includes 9.5% of the aggregated population. That is, 9.5% of Asians, blacks, and Hispanics in the entire labor force worked in an ethnic economy as an owner or coethnic employee. By the standard we adopted earlier, the independent ethnic economy of the blacks, although the smallest of the three categories, is nonetheless significant. The ethnic economy of the Hispanics is highly significant, and that of the Asians is extremely significant. For the aggregate of the groups, the ethnic economy approaches high significance.

On the other hand, when the same method is applied to all persons, including nonminorities (Table 2.2), we find that 24.1% of the entire labor force probably worked in ethnic economies. This estimate indicates that the whites had a 2.5 times higher proportion of their labor force in ethnic economies than did nonwhites in 1992. The direction of this result is compatible with the finding of Logan, Alba, and McNewly, who, using a different technique, concluded that the ethnic ownership economies of non-Hispanic whites included many more industries in 17 metropolitan areas than did those of any other group. Since their industries were more numerous, one presumes that the ethnic economies of the whites also included a higher share of the white labor force than did the ethnic economies of the nonwhites. The use of nonwhite data to illustrate the size of ethnic economies actually underestimates their true size.

Who Works in Ethnic Ownership Economies?

In all ethnic ownership economies, the self-employed outnumber their employees. The extent of that disparity varies from group to group, but it is usually substantial. Among Iranians the self-employed were 10-fold more numerous than their employees; among Asians, the self-employed were only 1.3 times more numerous. Other groups fell between these extremes. Nonetheless, the invariant surplus of self-employed among these ethnoracial minorities does contrast with the general labor market economy, in which we find 158 employees for every 100 self-employed (Table 2.2). The discrepancy reminds us that the firms of ethnoracial minorities are generally smaller than those of non-minority owners. At one result, they employ many fewer workers.

This point is important for two reasons. First, although the ethnic economy's contribution to income, wealth, and employment is the subject of the next chapter, studies of the economic welfare usually examine the relative wages of employees in the ethnic economy and in the general labor market, ignoring the income of self-employed coethnics. This approach would yield a truer estimate of the economic contribution of ethnic economies if the employees in ethnic economies greatly exceeded the self-employed in number, as they actually do in the general labor market. However, in the economies of ethnoracial minorities that situation occurs infrequently. The self-employed are more numerous than their employees, so estimates of the ethnic economy's economic benefit must include the self-employed to avoid distorting the economic conclusion.

Second, from the point of view of class stratification, it matters whether an ethnic ownership economy of 100 persons consists of 99 self-employed persons and 1 employee or 99 employees and 1 employer. In the first case we confront a small business economy in which all the owners work for themselves, mostly in shirt sleeves, and they direct no hired labor. In the second, a silk-hatted owner supervises 99 employees. Both of these ethnic economies have a population of 100, but the two are qualitatively quite different in many important ways. Since, as the data show, most ethnic economies are strong on owners and weak on employees, contemporary ethnic ownership economies tend to be egalitarian enclaves of the petit bourgeoisie, but the inequitarian pattern is a developmental possibility. That is, if 98 of the ethnic economy's self-employed become employees of the 1 sur-
vivor, we would then have an ethnic economy of 1 employer and 99 workers that used to be an ethnic economy of 1 employee and 99 self-employed. This change would render ethnic ownership economies more inequitable.

It would be convenient indeed if ethnic ownership economies consisted entirely of ethnically homogeneous firms. However, ethnic firms need not be ethnically homogeneous and often are not. Rather, ethnic firms are homogeneous at the core, and, as they expand in size, they become less homogeneous. The workers closest to the owner are members of his or her own family. Unpaid family workers are coethnic because they belong to the owner's family and share that family's cultural heritage. Beyond that inner circle, ethnic firms often employ workers related to the owner by blood or marriage. Usually, these employees share the ethnic identity of the owner since they owe their employment to a family relationship. These are also family workers even though they obtain a wage. The next circle consists of coethnics who are not related to the owner by blood or marriage. Such workers share an ethnic affiliation with the owner but are not also part of that owner's extended family. Finally, ethnic firms hire noncoethnic workers as the need arises, usually when they cannot find enough coethnics.

Table 2.6 shows the proportions of each category that worked in Iranian-owned firms in Los Angeles. Among all Iranian firms, 2.7% of paid employees were actually related by blood or marriage to the owners. Another 35.7% were fellow Iranians who were also coreligionists. That is, the Iranian employee shared the religion of the owner as well as the Persian language skill. Another 19.5% of employees were Persian-speaking Iranians who did not share the religion of the owner. Finally, 41.2% of the employees of Iranian businesses were not Iranians at all. The unequal hiring choices of the categories are clear in these data. Relatives of the owner represented less than 0.0001% of the labor force, so they were represented 21,000 times greater than chance among the paid employees. At the opposite extreme, non-Iranians, who represented 99% of the labor force of Los Angeles, had only 4% of the jobs in Iranian-owned firms. In between, Iranian coreligionists were less numerous than Iranian noncoreligionists, but the coreligionists obtained a larger share of the jobs than did the noncoreligionist Iranians. Clearly the owners gave preference to workers who shared social identities with them.

Most Iranian firms in Los Angeles were less than 10 years old when the data in Table 2.6 were collected. They hired little labor, but what they did hire came principally from their own internal ethnic community. However, as firms and communities mature, they often experience labor shortages that compel changes in hiring policy. First, as more coethnics become owners, fewer are left behind as workers so the coethnic labor pool shrinks. This scenario affected Israeli entrepreneurs in Los Angeles. When 85% of the Israelis had become entrepreneurs, only 15% were left behind as workers. For this reason, as Gold20 points out, the Israeli entrepreneurs were compelled to hire more and more Mexican workers. A related situation occurred in the London garment industry. In this industry, according to Panayiopoulos,21 Greek Cypriot firms had to hire more and more Asian and Afro-Caribbean workers because their expanded firms could no longer be fully supplied with workers by the Cypriot community. The Greek Cypriots had all become business owners, and too few were left behind as workers. As the proportion of noncoethnic employees increased, the proportion of Greek Cypriot and of family workers declined.

The ethnic composition of an ethnic economy's labor force is a significant issue. It would be possible for an ethnic economy to consist exclusively of five major employers, none of whom hired any coethnic labor.22 As matters stand now, ethnic economies mainly hire coethnics. However, this state of affairs is obviously related to the preponderance of self-employed over employees. Where this preponderance exists, coethnic communities are able to supply all the labor that the ethnic economy needs. For example, Bonache and Modell23 found that "sixty percent of the male Nisei in the mid-1960s were employees. Of these 10% were working in firms that they identified as Japanese American." Obviously, there was room for the Japanese American firms to expand without running out of Japanese Americans to hire. However, when ethnic communities run out of workers, who have repatriated or found better jobs, then the heterogeneity of ethnic economies also increases, with potentially dramatic effects upon labor relations in the firms.

The Informal Sector

When we have counted all the owners, unpaid family workers, and employees whom the census enumerates, and estimated those not counted separately, we still have not counted all the workers in ethnic ownership economies of the
United States. This undercount arises because the U.S. Census does not enumerate the informal sector at all, and most of the informal sector belongs also to the ethnic ownership economy. The informal sector consists of unregulated and unrecorded economic activity that occurs off the books and on whose proceeds no taxes are paid. An ethnic economy is not an informal sector, although it often overlaps it. An informal sector consists of marginal and distressed workers and petty merchants. Informal businesses typically lack employees, a permanent mailing address, a telephone, regular business hours, tax identities, and inventory. An informal sector is an unmonitored economic sector that coexists with a monitored, official economy in which superior wages and working conditions prevail. Sassen defines the informal sector as “income-generating activities that take place outside the framework of public regulation, where similar activities are regulated.” Examples include people who sell at retail in swap meets and on street corners, women who operate unlicensed child care facilities in their homes, vendors of home-brewed liquor, and moonlighting plumbers paid in cash. Most workers in the informal sector are self-employed. A woman who operates an unlicensed child care facility owns a nursery school. A woman who takes boarders into her house owns a hotel. A man who sells home-brewed beer to his workmates owns a beer distributorship. Since these informal sector workers are self-employed, they participate in the ethnic ownership economy’s informal sector. Admittedly, some informal sector workers are employees. In garment and electronic manufacturing, employers sometimes retain many employees off the books. That is, they pay these employees more than they declare to tax authorities or even declare none of what they pay. Since no taxes are deducted from their wages, these employees work in the informal sector. If their employer is a coethnic, these employees work in the ethnic ownership economy’s informal sector. If their employer is not a coethnic, but the employees are heavily coethnic, then we are dealing with the ethnic-controlled economy’s informal sector. The garment industry of the United States is importantly an ethnic-controlled informal sector because employers are disproportionately Asian and employees disproportionately Hispanic.

Portes and Stepick developed multiple ways to measure participation in the informal sector. They identified respondent participation in the informal sector by payment in cash for labor services, or payment without tax deductions, or domestic service employment, or itinerant self-employment, or hourly wages below 80% of the legal minimum. Portes and Stepick’s battery operationalized the prevailing treatment of the informal sector as a fully monetarized sector whose transactions are unrecorded in public statistics.

Portes has also reviewed three indirect methods that have been used to estimate the population of the informal sector in the United States. One method uses official statistics to enumerate the employment base of “very small enterprises” that employ fewer than 10 workers. In 1989, 15% of all employees worked in firms this small, but 75% of firms were in this class. If we assume that even one-half the firm owners and one-half of their employees worked part-time in the informal sector on at least one occasion in 1989, we arrive at an estimate of 12% participation. This percentage is the share of the labor force that worked part-time in the informal sector and does not include full-time workers, whose numbers, Portes points out, cannot be estimated from an official source.

Another indirect method estimates the size of the informal sector from surveys of consumer purchasing. By ascertaining how and where a sample of consumers spent their income, James Smith and his associates concluded that 83% of all households participated in the informal sector and that these households expended 15% of their disposable income in the informal sector.33 If we assume that 15% of all expenditures purchased 15% of all labor, then we conclude that the informal sector accounted for 12% of the total work hours of American workers in 1985, the target year. However, because informal sector workers earn less than the average, this method probably underestimates the actual size of the informal sector.

A third, indirect method estimates the size of the underground economy by subtracting from actual spending the currency in circulation required by the formal sector. The difference is the share of the informal sector in total spending. Using this approach, Feige estimated that 18% of adjusted gross income was spent in the informal sector in 1986.34 If again we assume that 18% of spending bought 18% of labor, a conservative basis, we conclude that 18% of American labor was sold in the informal sector in 1986. This estimate does not mean that 18% of Americans worked full-time in the informal sector. The method cannot reach that conclusion, but it can illuminate what share of their total hours of paid labor Americans worked in the informal sector.

The best estimates of the informal sector derive from labor force surveys that ask respondents to account for their work hours in a target week. Third World countries have made extensive use of labor force surveys to derive estimates of informal sector participation in their country. Estimates range from 20 to 60%. However, direct labor force estimates are not available in the United States, possibly because of the prevailing assumption that the United States cannot have an informal sector. For this reason, ethnographic studies conducted by social scientists contain the documentation on the size of the informal sector in the United States. Ethnographic studies invariably report high levels of informal sector participation in poor neighborhoods, but they rarely provide quantitative estimates.

However, Tienda and Rajman developed quantitative estimates from a survey study of 450 households in an immigrant neighborhood of Chicago. Over three-quarters of neighborhood residents were born in Mexico; the others were mainly Arabs and Koreans. First, Tienda and Rajman enumerated the sampled households’ principal economic activities, which are normally reported to census
takers and tax collectors. Then Tienda and Rajman distinguished two categories of informal self-employment: general self-employment labor and rental property management. They found that 14% of all households were involved in general self-employment labor, and another 24% in rental property management. In all, 38% of households were involved in the informal sector. Rental property management meant renting furnished rooms in one's home to outsiders, normally coethnics, sometimes with board added. Room and board rentals are a classic source of extra income for immigrant families, and the practice is carefully documented in nineteenth-century descriptions of "the lodger evil." Because the income from renting those rooms escapes taxation and is not reported, this economic activity belongs to the informal sector.

Unemployment and underemployment are more common among visible ethnic minorities and immigrants than is full employment. Most people are underemployed or unemployed. Among immigrants 25–64 years of age in the United States, Zhou finds access to the labor market is easy and labor force participation is high. However, Zhou reports, half the men "of any immigrant group" and "70% of working women are underemployed." Here underemployment means part-time work where full-time work is desired or work below the level for which one's education has prepared one. Under either circumstance, many people seek part-time self-employment in the informal sector. Largely as a result, low-income people have very high rates of informal self-employment. In his study of 1.5 million people in five Midwestern states, Bauman found that the "self-employment rate of persons in poverty who worked full time year round is twice as high as the overall self-employment rate of the full time working population." Tienda and Rajman report comparable results from their study of Mexicans in Chicago. "Whereas 10% of working-age adults are self-employed based on their main economic activity, almost 20% report some form of [part-time] self-employment."

All this part-time self-employment in the informal sector belongs to the ethnic economy. However, census takers have no record of secondary self-employment, contenting themselves with a respondent's main or principal occupation. As a result, official statistics underestimate the self-employment rates of the poor, of visible minorities, and of immigrants because these groups' self-employment falls disproportionately in the informal sector. A person who works part-time in the general labor market and part-time as a self-employed mechanic has one foot in the general labor market and another in the ethnic economy's informal sector. We might say that he or she works half-time in one and half-time in the other. Although the classification is simple, the actual numbers of such people are impossible to obtain from existing sources, and we must content ourselves with the knowledge that official self-employment rates, including those cited earlier, considerably underestimate true self-employment in groups that participate heavily in the informal sector. Since we are attempting in this chapter to measure, however roughly, the extent of actual participation in the ethnic economy, this knowledge is the objective.

Official statistics do show how many business owners worked very short hours and earned very little money. Business owners in this category are likely participants in the informal sector. Among blacks and Hispanics, more than a third of business owners who earned less than $5000 per year also worked very short hours. These owners represented about 12% of all business owners. Women business owners were about as likely as black and Hispanic owners to work few hours for low wages, but the women business owners had the highest percentage of all owners (15%) in this marginal category. White men were at the opposite extreme. Only 5.3% of them worked short hours and earned low incomes. Asians were between white men on one side and blacks and Hispanics on the other. About 10% earned low incomes and worked short hours. Since this category, short hours and low wages, comes as close to the informal sector as one can get with official statistics, the participation rates in it probably can stand for minimal estimates of the participation of the ethnoracial and gender categories in the real informal sector.

To illustrate the danger of ignoring the informal sector and relying upon official statistics alone, Table 2.7 shows the sectoral representation in 1980 of Cuban Mariel refugees and Haitian refugees in Miami. Derived from the work of Alex Stepick, this table is based ultimately upon official statistics that ignore the informal sector. The three sectors are unemployment, the immigrant economy, and the general labor market of Miami. Cuban Mariel refugees are working-class Cubans, expelled from their homeland, who arrived in a massive exodus in 1979. A significant proportion of these Cuban refugees were black. Haitians are impoverished blacks who claimed political refugee status in the United States but whom the U.S. government defined as economic refugees.

The sectoral representation of Haitians and Cubans was drastically different in 1980 (Table 2.7). Haitian refugees had 0.7% working in the ethnic economy, 58.5% unemployed, and 40.8% employed for wages or salaries in the general economy. In contrast, Cuban Mariel refugees had 46.1% employed in the ethnic economy, 26.8% unemployed, and 27.1% employed for wages in the general economy. In effect, the Haitian population apparently lacked an ethnic economy and so approximated the one-sector economy that we have earlier declared impossible in a group of this size. However, as Stepick shows, the impression is misleading because Haitians in Miami operated a very extensive informal sector that official statistics just ignored. Therefore, no trace of the Haitians' informal sector appears in Table 2.7, giving the erroneous impression that Cubans had an ethnic economy but Haitians did not. Although operated for cash only and without the knowledge of tax collectors, Stepick writes, the Haitians' informal sector amounted to "informal self-employment." Haitian entrepreneurs created jobs for themselves and for other Haitians. Their informal firms were chiefly in
TABLE 2.7 Cuban and Haitian Refugee Employment in Miami, 1980
(in Percentages)

<table>
<thead>
<tr>
<th></th>
<th>Cuban Mariel refugees</th>
<th>Haitian refugees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immigrant economy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-employed</td>
<td>15.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Working in ethnic firms</td>
<td>30.9</td>
<td>0.2</td>
</tr>
<tr>
<td>General labor market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployed</td>
<td>26.8</td>
<td>58.5</td>
</tr>
<tr>
<td>Employees</td>
<td>27.1</td>
<td>40.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


dressmaking, tailoring, food preparation, child care, transportation, construction, automobile repair, and electronic repair. In point of fact, then, a significant ethnic economy existed among the Miami Haitians as well as among the Cubans, but census takers ignored this Haitian economy whose existence would have gone unobserved except for social science research. Hard to measure does not mean nonexistent.

With these cases in mind, we can return to all the groups with low self-employment rates that our own tables, derived from census data, show as below or close to the 5% significance threshold. Census data show Haitians just above the threshold of significance, with an ethnic ownership economy of 5.6% (Table 2.4). Yet Stepick's ethnography proved Haitians operated a large informal sector, and the same is presumably true of people from Panama, Guyana, and Laos, all of whom the census shows as operating insignificant ethnic ownership economies. In the case of African Americans, who consistently rank low in ethnic ownership, large informal sectors are known to exist. Were these informal sectors to be included in the tables that show self-employment rates, African Americans, Haitians, and the others would rank far higher than they do in the official tables and much above the minimal significance threshold.

The Illegal Enterprise Sector

In addition to the formal sector and the informal sector, the ethnic ownership economy has a third sector, the illegal enterprise sector. The illegal enterprise sector consists of firms that sell proscribed commodities to willing buyers. Examples of proscribed commodities include recreational drugs, pornography, prostitution, gambling, and usurious loans. Providing these proscribed commodi-
consists of fraternal but partially or wholly independent firms that produce or distribute proscribed commodities behind a protective umbrella of corruption and violence. More even than legal firms in the formal sector, which have access to courts and police to adjudicate commercial disputes, illegal enterprises require the enforceable trust that shared ethnicity conveys. Because and to the extent that mafia firms consist heavily of self-employed workers and their employed coethnics, mafia firms belong to the ownership economy of the owners’ ethnicracial group.

ETHNIC-CONTROLLED ECONOMIES

It remains now to estimate the population of ethnic-controlled economies. An ethnic-controlled economy consists of coethnic employees in the general labor market who exert or enjoy significant and sustained market power thanks to their common ethnic background. Market power enables the coethnic workers to influence hiring, wages, and job conditions to their own advantage. Influence on hiring means that workers can reserve jobs for coethnics, reducing the unemployment rate of their group. Influence on wages means that workers can push wages higher than they otherwise would be, raising the mean income of their ethnicracial group. Influence on working conditions means that workers can improve the quality of their work life, reducing or eliminating abusive and unsafe working conditions, thereby rendering their occupations or workplaces more attractive.

Ethnic industrial and occupational niches are the simplest and most common cause of ethnic-controlled economies. Although the literature on ethnic niches is venerable as well as international, the idea of actually estimating the population of all the niches is new, and results thus far are crudely approximate at best. Logan, Alba, and McNulty examined the industrial clustering of 10 ethnicracial groups and categories in 17 metropolitan areas of the United States in 1980. They defined ethnic niches as representation at more than 150% of the expected number in an industry. Of the 1360 industries they examined in the 17 metropolitan areas, Logan, Alba, and McNulty found white niches in one-third. If we assume that the 451 industries in which whites were overrepresented had 43% of all the white employees, an algebraic extrapolation, then within the private sector, 43% of whites worked in industrial niches. The other 57% of whites worked in industries in which whites were not overrepresented. True, some of these white niches fell within white ethnic ownership economies, so the external white niches that correspond to what we have called the ethnic-controlled economy included somewhat less than the full 43%. Outward evidence on contemporary niche formation comes from the research of Jeffrey Reitz in Toronto. Using evidence from the 1971 Canadian census, Reitz examined the concentration of seven ethnic minorities in labor markets. The groups were Germans, Ukrainians, Italians, Jews, Portuguese, Chinese, and West Indians. Aggregating the seven ethnic racial groups, Reitz distinguished the self-employed, employees of minority business, and mainstream employees. Of the employees of minority business, 70.2% of all men and 68.0% of all women worked for coethnic employers. Of employees in the mainstream, whose employers were not coethnics, 23.3% of men and 23.1% of women reported that at least a quarter of their coworkers were also coethnics. Concentration of coethnic coworkers approximates our definition of an ethnic-controlled economy and can be accepted as an estimate of its size.

Table 2.8 shows the results for the seven aggregated groups. Among men, the combined ethnic ownership economy and ethnic-controlled economy amounted to 52.1% of all workers. Employees of the mainstream were 47.9% of all male workers in the seven groups. Among women, results were comparable: 41% of women worked in the combined ethnic ownership economy and ethnic-controlled economy. Almost 59% of women worked as employees in the mainstream. The difference between the men and women mostly resulted from the women’s lower rate of self-employment. Men and women had comparable representation as employees of minority enterprise and as employees in ethnic-controlled occupations of the mainstream.

Reitz’s data also bear upon the ethnic economics of four ancestry groups in three generations (Table 2.9). Reitz distinguished owners and employees of minority businesses. These two categories represent the ethnic ownership economy of the four ancestry groups. Additionally, Reitz indicated the percentage who worked in occupations of which at least one-quarter of all workers were coethnics and one-quarter of whose workmates or more were also coethnics. These

| TABLE 2.8 Aggregated Ethnic Economies of Toronto, 1971 (in Percentages) |
|----------------------|-------------------|-----------------|
|                      | Male              | Female          |
| Ethnic ownership economy |                   |                 |
| Self-employed         | 18.2             | 7.1             |
| Coethnic employee     | 10.6             | 11.1            |
| Ethnic-controlled economy coethnic workplace* | 23.3         | 23.3            |
| General labor market mainstream employee | 47.9          | 58.7            |
| Total                 | 100.0            | 100.0           |

*Employed outside ethnic economy in the general labor market and at least one-fourth of coworkers are coethnics.

TABLE 2.9 Estimated Ethnic Economies of Toronto by Gender and Generation for Four Ancestry Groups, 1971 (in Percentages)

<table>
<thead>
<tr>
<th>Ethnic economies</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ownership</td>
<td>Control</td>
</tr>
<tr>
<td>German</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Immigrant</td>
<td>23.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Second</td>
<td>16.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Third</td>
<td>15.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Ukrainian</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Immigrant</td>
<td>8.7</td>
<td>20.2</td>
</tr>
<tr>
<td>Second</td>
<td>23.8</td>
<td>16.1</td>
</tr>
<tr>
<td>Third</td>
<td>15.5</td>
<td>11.3</td>
</tr>
<tr>
<td>Italian</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Immigrant</td>
<td>44.3</td>
<td>90.6</td>
</tr>
<tr>
<td>Second</td>
<td>35.6</td>
<td>42.6</td>
</tr>
<tr>
<td>Third</td>
<td>32.2</td>
<td>39.8</td>
</tr>
<tr>
<td>Jewish</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Immigrant</td>
<td>61.4</td>
<td>55.7</td>
</tr>
<tr>
<td>Second</td>
<td>56.0</td>
<td>51.7</td>
</tr>
<tr>
<td>Third</td>
<td>68.4</td>
<td>54.9</td>
</tr>
</tbody>
</table>

*aCombines self-employed and employees of minority-owned business of whom 70% are coethnics. These categories are mutually exclusive, but both categories can also be counted in ethnic occupations and ethnic workmates.
*bCombines working in a 25% or more coethnic occupation and having coworkers on the job 25% of whom or more were also coethnics. These two categories are not mutually exclusive.


two indicators can stand for the ethnic-controlled economy of the mainstream. The trouble is, in Reitz's data these categories are not mutually exclusive. About 42% of the self-employed worked in heavily ethnic occupations, and another 36% of employees of minority businesses had coethnic workmates. Therefore, the ethnic-controlled category of Table 2.9 includes people from the ethnic ownership economy, exaggerating the size of what we have called the ethnic-controlled economy.

Nonetheless, we reproduce Reitz's data because of the unparalleled insight they offer into generational changes in ethnic economies and the opportunity to examine specific intergroup differences (Table 2.9). According to assimilation theorists, ethnic economies disappear with successive generations as the children and grandchildren of immigrants join the melting pot. Indeed, Nee, Sanders, and Sernau have provided cross-sectional evidence that immigrant Asians in San Francisco were gradually transferring from the ethnic ownership economy to employment in the mainstream during their own lifetimes. Furthermore, the Toronto data offer partial support to assimilation theory's prediction. Among the German men and women and the Italian men, the proportion in ethnic ownership economies declined monotonically with successive generations after immigration, just as assimilation theory predicts. However, among the Ukrainian men and women, the Italian women, and the Jewish men and women, the ethnic ownership economy either increased or remained stable after the immigrant generation. This result is not what assimilation theory predicts.

Turning similarly to the issue of coethnics in occupations and workplaces, called the ethnic-controlled economy, we find declines among German women, Ukrainian men and women, and Italian men and women. This result is compatible with the possibility that, as they assimilated and acculturated, the children and grandchildren of immigrants moved into mainstream occupations in which they know, it, another issue is the size of ethnic economies. Of immigrant groups in North America, Germans have been among the most assimilated. This was partially a result of cultural compatibility, but the historical record shows that World War I and World War II drastically undermined what had been strong and durable ethnic communities among Germans. During the two world wars, German ethnic associations and newspapers were shut down. Indeed, just speaking German in public was regarded as subversive. Whatever the causes, compared with the other immigrant nationalities, the Germans had rather small ethnic economies in Toronto, and these tended to decline with successive generations, suggesting an ethnic group that moved into total assimilation. By contrast, Italians started with huge ethnic economies that declined with assimilation but remained big in the third generation. Finally, the only middleman minority of these four groups, the Jews started in Toronto with large ethnic economies that they maintained despite acculturation to Canadian society. Among the Ukrainians, ethnic-controlled work sites and occupations declined with assimilation, but ethnic ownership economies increased, possibly because of upward mobility among what had been a working-class immigrant group. The quite different trajectories of these four Canadian ethnic groups show how cautiously one must specify with historical detail the blanket predictions of assimilation theory.

Ethnic niches are not a recent development. Lieberson analyzed the ethnic composition of occupations in non-urban centers in 1900. After standardizing
group size to eliminate compositional effects, Lieberson presented data that confirmed many occupational stereotypes. Blacks constituted 74% of all domestic servants in the 66 cities, Germans constituted 72% of brewers, and Irish constituted 26% of policemen. In the same manner, 82% of Boston's laborers and 74% of its domestic servants were Irish in 1850. Historian Oscar Handlin provided data on ethnic occupational clustering among 43,567 Boston workers in 1850. If we define ethnic niches as an average representation of workers in occupations that exceeded 10 times chance, a stiff standard, then 100% of blacks worked in niches in 1850, as did 100% of Latin Americans, 100% of Poles and Russians, 100% of Scandinavians, and 100% of Italians.

DISCUSSION

Ethnic economies have only two sectors: ownership and control. The ownership sector comprises the self-employed, owners, and their coethnic employees. The control sector consists of employees outside the ownership sector who work in occupations, industries, or workplaces in which coethnics enjoy market power thanks to their numbers, their organization, their political power, or all three. However, both the ownership and the control sectors have three subsectors. These are the formal, the informal, and the illegal. The formal subsector consists of firms that pay taxes and have official recognition. The informal subsector contains firms that, producing legal commodities, produce them illegally because they evade taxation and the labor code. The illegal subsector consists of firms that manufacture or distribute proscribed commodities. Table 2.10 illustrates this typology with examples.

Official statistics give some access to the formal sector since they permit us to ascertain the formal sector's self-employment rate, the unpaid family workers who work in the formal sector, and, in some cases, the number of employees of ethnic firms in the formal sector. Official statistics are of no use in estimating the population of the ethnic economy's informal sector, but social science research makes possible rough estimates of participation. For obvious reasons, the illegal sector's population is even harder to illuminate than is the informal sector's. But the roughest calculations suggest that, although the smallest of the three sectors of the ethnic economy in terms of population, even the illegal enterprise sector cannot be ignored.

Although all ethnoracial groups have ethnic ownership economies, and the formal sectors are clearly quite different in size, we cannot be sure which groups' ethnic ownership economies are largest in population. It is plausible to suppose that the participation of ethnoracial groups in the informal and illegal sectors varies inversely with their entrepreneurial resources. By entrepreneurial resources we mean those resources of skill, money, acumen, and network that permit groups to own and operate legitimate enterprises in the formal sector. Just from the evidence we have reviewed, one can see that low-ranking ethnoracial groups with the lowest participation in the formal sector have higher participation in the ethnic economy's informal sector and probably have higher participation in the ethnic economy's illegal sector as well. This possibility harmonizes with the classic view that as ethnic racketeers acquire resources of money and education, they transfer their assets from the illegal to the legal sector, thus leaving behind a vacuum in illegal enterprise for lower-ranking ethnic minorities to occupy.

However, our purpose in this chapter has not been to investigate how ethnic economies work, but only to estimate how many people work in them. The null hypothesis is the claim that so few people work in ethnic economies that social science can legitimately ignore the whole subject. This null hypothesis is, in fact, the old-fashioned view that informed social research in the previous generation and that continues, to some extent, even today. Rejecting this claim, we have shown that, even when we restrict our attention to the formal sector, three-quarters of ethnic groups have self-employment rates in excess of 5%. When account is taken of employment in the ethnic economy's formal sector, virtually all ethnic groups have ethnic economies that reach a 5% threshold. For the average ethnic group in our review, about 11% of the whole group's labor force works in the ethnic ownership economy.

The formal sector does not exhaust our case. Beyond the formal sector, we have shown that ethnic economies also exist in the informal sector and in the illegal sector. Although participation rates in the informal sector are impossible to

<table>
<thead>
<tr>
<th>Table 2.10 Ethnic Economies and Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethnic ownership economy</td>
</tr>
<tr>
<td>Form</td>
</tr>
<tr>
<td>Form</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>

Examples
1. Owners of dry-cleaning retail store and their coethnic employees
2. Owner-operators of 'off-the-books' garment factory and their coethnic employees
3. Owner-operators of illegal betting parlor and their coethnic employees
4. Coethnic employees of a giant corporation who enjoy market power thanks to their coethnicy
5. Coethnic employees of 'off-the-books' garment factory owned by a noncoethnic
6. Coethnic employees of illegal betting parlor whose owners are noncoethnics
quantify with confidence, available evidence suggests that rates of informal sector participation reach or exceed 10% for an average ethnic group. In this case, participation in the ethnic economy's formal sector plus participation in the informal sector would come to 20% for the average ethnic group. When we consider that an additional percentage must be added to the ethnic economy because of its illegal enterprise sector, our concluding estimate for the average ethnic group's ownership economy reaches 21% of the labor force. As we shall see in the next chapters, these estimates of labor force share are compatible with estimates of gross domestic product share that others have reached.

Even the ethnic ownership economy does not exhaust our case. Beyond ethnic ownership economies, there exist ethnic-controlled economies. In ethnic-controlled economies, coethnic employees influence hiring, wages, and working conditions in the mainstream thanks precisely to their coethnicity. The concept of ethnic-controlled economy is harder to measure than is the concept of ethnic ownership economy, which has a firm definition in law. Moreover, available evidence is even more fragmentary and harder to mobilize. Nonetheless, the literature of social science permits no escape from the conclusion that big ethnic-controlled economies exist now and have existed in the past. Reviewing the available evidence, we conclude that a fifth of the average ethnic group now works in ethnic-controlled economies. This proportion is higher for some than for others, and assimilation reduces it, but a fifth represents a conservative estimate.

When we add the ethnic ownership economy and the ethnic-controlled economy, we obtain an estimated participation rate of 41% outside the employment mainstream. This estimate applies to the average ethnic group and is higher or lower for individual cases. Additionally, as we have suggested, ethnoracial groups have unequal participation in the formal, informal, and illegal subsectors of the two ethnic economies. Nonetheless, our overall estimate suggests a phenomenon that is too large to ignore, and that, fervently to echo Fawcett and Gardner, should "receive more serious attention" from the research community in the future than it has in the past. The question is not whether our rough-hewn methods are conclusive, but only whether they make a case for more adequate coverage of this phenomenon.

Ethnic economies exist because of the scarcity of jobs. Ethnic economic behavior is a rational response to job scarcity. The general labor market does not offer now, and never has offered in the past, enough jobs to employ everyone to his or her full satisfaction. In all probability, the general labor market will never provide enough good jobs for all in the future either. Although the inadequacy affects everyone to some extent, even the native-born white majority, the burden of scarcity falls most heavily upon the less assimilated or acceptable white groups, visible minorities, non-Christians, refugees, and immigrants. For affected individuals, who are numerous, the inadequacy of the general labor market leaves scant alternative to utilizing their own resources to improve their economic chances. Evans concludes that ethnic ownership economies "buffer the most disadvantaged" from the "limited opportunities they would confront on the open labor market." We agree, but note that, in expanding opportunities to coethnics, ethnic-controlled economies diminish the opportunities available to noncoethnics whereas ethnic ownership economies do not. Arguably people should not create ethnic-controlled economies, which balkanize labor markets, but they rationally do.
Ethnic economies have three ways of rewarding participants. These ways are job creation, job capture, and accelerated mobility. Ethnic-controlled economies capture jobs that noncoethnics would otherwise obtain. Ethnic ownership economies create altogether new jobs. Sometimes created or captured jobs are exceptionally lucrative, but even when they are not, they are extra jobs. Whether created or captured, extra jobs expand the job supply available to coethnics. After all, coethnics get all jobs that the ethnic-controlled economy captures and most jobs that ethnic ownership economies create, but they only get some of the jobs in the general labor market. Insofar as ethnic economies recruit the unemployed or the nonemployed, such as former housewives, they draw into paying jobs people who would otherwise have earned no income. The upshot is an ethnic community in which a higher proportion of the adult population enjoy paying jobs than would have been possible without any ethnic ownership economy or ethnic-controlled economy. This community will have more earners and fewer nonearners thanks to job creation and job capture.

The third way in which ethnic economies reward participants is to accelerate economic mobility beyond what the general labor market would have provided. The components of economic welfare are wealth, income, and working conditions, including security of employment. If ethnic economy participants earn more of all rewards (income, wealth, working conditions) or, conversely, earn less,
then our judgment is simple. In the first case, the ethnic economy accelerates their economic mobility; in the second case, it retards it. But what if ethnic economies only improve one of the three superior rewards, or they improve two, but the third reward is better outside? In that realistic case, we would confront trade-offs in which ethnic economy participants get more of one value than they would have in the general labor market, but they get less of another.

To complicate the judgment still more, we may have to weigh the advantages of job capture and extra jobs against those of income, wealth, and working conditions. In the best case, of course, ethnic economies capture jobs that are also superior to what participants could have obtained in the general labor market. Imagine how advantageous it would be for any ethnic group, say Puerto Ricans in New York City, to capture an additional 100,000 jobs, each of which is paid twice what its incumbent would otherwise earn in the general labor market. In the worst case, ethnic economy jobs relegate participants to inferior jobs on which the general labor market could improve if only the unfortunate coethnics, languishing in their ghetto, would apply for them. This is not the worst imaginable case, but it is the worst case for ethnic economies. However, cases need not be so extreme and usually are not. Ethnic economies can deliver job capture and job creation even while they fail to accelerate mobility, or vice versa. In any mixed case, we again confront trade-offs in which some benefit is matched by some disadvantage. Additionally, group A may obtain one set of benefits from their ethnic economies while group B obtains another and group C still another. Facing all these realistic complexities, one sees that reaching a blanket conclusion about ethnic economies is challenging.

For this reason, the ethnic economy has generated a lengthy and often polemical literature bearing upon its economic desirability. Ignoring the heat that this literature has generated, we focus on the light, attempting only to present the most faithful account of what the evidence actually conveys about economic mobility, wealth creation, income attainment, and employment in ethnic economies and outside them. This is the course of social realism that, as Alan Wolfe puts it, just seeks to understand the world "no matter how distasteful, politically objectionable, or immoral that world may be." 6

ETHNIC OWNERSHIP ECONOMIES

Economic Mobility and Wealth

Portes and Zhou define assimilation as a "mechanism for socializing culturally diverse groups into common normative expectations so that they can join the mainstream." Assimilation theory originated as interpretation of the cultural and social change through which European immigrants had passed in the first half of the twentieth century. Although assimilation theory continues to develop, it still proclaims that economic self-interest prompts immigrants to acculturate and then

to assimilate. That is, in order to obtain well-paid jobs in the general labor market, adults forsake their childhood ethnic attachments, including their old neighborhood and native language. As one immigrant put it, "You wanna da mon, you gotta speaka da ing." Assimilation theory enthusiastically agrees. Someday this immigrant's grandson will have a good job and perfect command of English. In order to obtain these, he will, so argues assimilation theory, have abandoned his grandparents' cultural heritage and married a nonethnic wife who has abandoned her grandparents' cultural heritage too. Over a sequence of generations, so the theory continues, everyone will have individually forsaken her or his ethnic attachments out of materialist motives. The ethnic groups whence they emerged will disappear into the melting pot.

Unsentimental though it is, assimilation theory is still the mainstream view. It is also importantly true, and our own review concurs with much of what assimilation theory proclaims. Nonetheless, classic assimilationist generalization now seems overstrung, so we propose modification. In at least some cases, we now realize, ethnic ownership economies render slow assimilation more lucrative than fast, and nonassimilation more lucrative than assimilation. In such cases, the motive of economic self-interest does not promote acculturation as assimilation theory expects. On the contrary, it promotes retaining the ethnic cultural heritage and staying out of the economic mainstream. An important complication derives from the ethnic advantages that self-employment confers. Ethnic economies make ethnicity lucrative for at least some of the people all of the time.

Conventional wisdom proclaims that self-employment accelerates economic mobility and wealth creation. This conventional wisdom actually enjoys some scientific support. One reason is the importance of self-employment in wealth generation. The self-employed amass and own more wealth than do wage and salary earners. Here we distinguish wealth and income. In contrast to income, which is a regular infusion of money or goods, wealth is a household's store of valuable assets. These stored assets are either fully monetarized, as are bank accounts, or are convertible to money, as are houses, jewelry, and vehicles. Although high incomes make wealth creation easier, and the two often go together, wealth and high income are not identical in that a person or household can have one without the other.

Table 3.1 compares the nonfinancial assets of American families in 1992. Approximately 91% of families had nonfinancial assets; the most common form was motor vehicles, owned by 86.4% of families. The largest single source of wealth for American families was their owner-occupied residence, whose median value was $81,800. Only 20% of families owned investment real estate, and only 14.9% owned a business. The average value of businesses these families owned was 21% of the average of all nonfinancial assets Americans owned. The average value of investment real estate was 72% of the average value of all nonfinancial assets. Since the ownership of a business and the ownership of investment real estate are both products of self-employment, these statistics show that the self-employed had unique access to distinctive forms of wealth.
TABLE 3.1 Nonfinancial Assets Held by Families by Asset Type, 1992

<table>
<thead>
<tr>
<th>Value of assets</th>
<th>Median dollar value</th>
<th>Percentage who own asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any nonfinancial asset</td>
<td>69,500</td>
<td>91.3</td>
</tr>
<tr>
<td>Vehicles</td>
<td>6,990</td>
<td>86.4</td>
</tr>
<tr>
<td>Primary residence</td>
<td>81,800</td>
<td>63.8</td>
</tr>
<tr>
<td>Investment real estate</td>
<td>50,000</td>
<td>20.0</td>
</tr>
<tr>
<td>Business</td>
<td>14,900</td>
<td>14.9</td>
</tr>
<tr>
<td>Other</td>
<td>8,500</td>
<td>8.5</td>
</tr>
</tbody>
</table>


Oliver and Shapiro found that the self-employed own “from two to 14 times as much net worth as their salaried counterparts.” The advantage of the self-employed in wealth greatly exceeds their advantage in income. Self-employed whites earned 73% of what upper-white-collar whites earned, but the self-employed whites had nearly three times more net financial assets than did the upper-white-collar whites. The reasons for this disparity are simple. The self-employed own businesses; their business represents personal and household wealth to its owners. Indeed, the income of the self-employed is obtained from the proceeds of their business after the cost of servicing their loans and their return on equity investment has already been deducted. Therefore, as the self-employed pay off any loans, their equity share in their own business grows, and as it grows, their wealth increases. Every pay period, the self-employed receive income plus any growth of their equity share, whereas employees receive only their paycheck. Additionally, as Blau and Graham point out, the self-employed are also more likely than wage earners to have inherited business property from self-employed parents. Here are two reasons why the self-employed own so much more wealth than do employees. Even if the after-tax incomes of the self-employed were identical to those of employees, the self-employed would hold and amassed more wealth than employees for these two reasons.

Business Owners’ Incomes

To estimate whether ethnic business owners earn more in business than they would have in wage employment, one could simply ask them. They should know. However, that ingenious question has only been posed in Australia, where two-thirds of immigrant entrepreneurs, male and female, said they were “better off in terms of money” as a result of operating a small business than they would have been had they worked for wages. By contrast, only one-third of native-born Australian entrepreneurs said they were financially better off as owners than they would have been as employees. Collins concludes that business ownership was more advantageous to entrepreneurs of non-English-speaking background than to those already fluent in English, a result that should generalize to North America.

However, North American researchers have gone to census data rather than to business owners for the answer to this question. Early research simply assumed that self-employment fetched higher incomes than did wage employment. Only in the 1980s did this assumption undergo scrutiny. Early evidence tended to show, as expected, that the self-employed earned higher incomes than coethnic wage earners. The key contribution was that of Portes and Bach. In a statistical comparison of working-class men of Cuban and Mexican origins, Portes and Bach found that the Cuban men experienced much more rapid economic advancement because an ethnic enclave economy in Miami encouraged their entrepreneurship. Net of human capital, the Cubans in the ethnic enclave economy earned more than Cubans employed in the general labor market. Additionally, Wilson and Portes and Portes and Bach found that participants in the ethnic enclave actually earned higher education-adjusted wages than did their coethnic counterparts in the general economy. This finding challenged the accepted wisdom, and made the ethnic enclave economy seem even more advantageous since employees as well as employers earned high money returns in it.

Sanders and Nee opened a useful debate on this subject. Although they wrongly conceded that entrepreneurs earned higher human capital adjusted earnings than wage workers, Nee and Sanders disputed Wilson and Portes’s claim of positive returns on human capital for immigrant workers in the ethnic enclave economy. Indeed, they reported that an ethnic enclave economy financially benefited a group’s employers but harmed its workers. In partial rebuttal, Zhou pointed out that workers often accept low-wage employment in ethnic economies in preference to the general labor market because of the symbolic reassurance it offers, the advantage of being able to work longer hours and to evade taxes, as well as the possibilities they perceive for training in hard-to-acquire entrepreneurial skills. Ethnic economies are the West Point of future ethnic entrepreneurs. Nonetheless, in narrowly economic terms, Sanders and Nee first showed that the effect of an ethnic enclave economy might be mixed or even negative rather than wholly beneficial.

A lengthy debate ensued. Although empirical tests of relative wages have sometimes failed to substantiate Portes’s enclave economy findings, the debate about employee earnings was slightly misspecified because most participants in ethnic economies are self-employed or employers, not employees. The nonemployer self-employed are the largest class, and the debate over employers’ wages had simply overlooked the self-employed themselves. Coethnic employees are less numerous than the self-employed. Therefore, as discussed in the preceding chapter, the economic welfare of the ethnic economy’s employees is less significant than the welfare of its self-employed and employers. An ethnic economy increases the wealth of the ethnic community so long as the self-employed are more nu-
merous than employees. Among all minority-owned firms, only 20.4% had any employees in 1987. Furthermore, the relative earnings of coethnic employees depend upon industry, gender, locality, the ratio of self-employed and employees, and so forth. For example, women employees may earn relatively more than men. San Francisco’s Chinatown may pay more than New York’s, Mexicans have more employees than do blacks in San Jose, and the Asian ethnic economy generates more income than does the black ethnic economy.

In addition, Sanders and Nec stipulated that ethnic entrepreneurs in the enclave earned more than their counterparts in the general labor market. Theirs was then the common view. Actually, to estimate the earnings of the self-employed is a bigger problem than they or others realized because raw census data are unreliable. As Reitz points out, census income data on self-employment are not fully comparable with those on employed persons. First, the income of the self-employed requires a year-end accounting because one must subtract costs from receipts. The self-employed may not even know what their current income actually is. Additionally, one must decompose the income of the self-employed into a component derived from their work and a component derived from their equity investment. For example, if a business owner had invested $100,000 in her business, and later has earned $40,000 after she has paid all her costs, we cannot declare the whole $40,000 proprietor’s income. After all, her $100,000 equity investment would have yielded $8000 if invested in government bonds. Therefore, an accountant would declare $8000 of her $40,000 income a return on capital, leaving only $32,000 as proprietor’s income. Census data ignore this issue.

These considerations suggest that census income data overstate the incomes of the self-employed. Moreover, even census data show that the self-employed earn less than wage and salary workers in the majority of cases. True, evaluating specific cases, Portes and Zhou showed that Cuban, Chinese, Japanese, and Korean self-employed earned more than comparably productive coethnics in the general labor market. Light and Roach obtained the same results in Los Angeles. These results demonstrate that entrepreneurship has enabled many American ethnic groups to increase their mean income above what wage and salary employment in the general labor market would have provided. This was an important lesson. Yet those cases are exceptional because, on average, the self-employed earn slightly lower money returns than equally productive wage and salary workers.

Maxim’s statistics demolished the assumption that self-employment was always superior to wage employment in respect to income. The finding certainly weakened the claim that ethnic ownership economies always accelerated the income growth of business owners above and beyond what the mainstream labor market would have provided. Low proprietor incomes made the ethnic economy resemble what Wiley called a “mobility trap.” A mobility trap looks inviting, but those who enter later find their career prospects worse inside it than they would have been outside. This issue has produced a flood of empirical studies intended to show just how much the self-employed and their coethnic employees earn relative to coethnic employees in the general labor market. On the side of the ethnic economy are amassing wealth and the prospect of future entrepreneurship for trainees; on the side of the general labor market are high wages. The ethnic ownership economy trades off benefits and costs.

The plausibility of the negative conclusion has declined in response to arguments that take unemployment into account. After all, even low wages and long hours in the ethnic economy are superior to unemployment in the general labor market. When ethnic ownership economies pay owners and employees little, the participants have usually been recruited from workers with diminished or negligible employment chances in the general labor market. If either employers or employees earn less in the ethnic ownership economy than in the general labor market, then new entrepreneurs and new employees can only be recruited from the unemployed, the underemployed, or those previously not in the labor force. In either case, an ethnic economy raises the earnings of the formerly unemployed or nonworkers above zero. Conversely, if the self-employed or employed earned more in the ethnic economy than in the general labor market, as they often do, then the more who moved into the ethnic economy, the richer the group would become. Therefore, whether earnings in the ethnic economy are more or less than those in the general labor market, an ethnic economy confers benefit. The benefit is great when entrepreneurs and/or their coethnic employees earn more than do counterparts employed in the general economy. It is small when entrepreneurs and their coethnic employees earn less.

Table 3.2 illustrates four earnings scenarios that compare the relative earnings of self-employed and coethnic employees in the ethnic ownership economy with counterparts in the general labor market. When the workers earn more in the ethnic economy than in the general labor market, Table 3.2 shows a plus sign; when the workers earn less in the ethnic economy, Table 3.2 shows a minus sign.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Self-employed</th>
<th>Employees</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>2</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>-</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

+ Earn more
- Earn less

There are four main scenarios. In scenario 1, the most favorable, self-employed, employers, and coethnic employees all earn more than equally productive coethnics in the general labor market. When this situation obtains, the more workers who switch from the general labor market into the ethnic economy, the higher the average income of their group. This ethnic economy increases the economic mobility of the group above what full general labor market employment would offer. Scenario 1 is what Portes and Bach reported in their study of the Cuban ethnic economy in Miami.

Scenario 4 illustrates the worst case. Employees, employers, and the self-employed earn less than equally productive counterparts in the general labor market. In this worst case, the more of the group's workers who can obtain entry into the general labor market, the higher will be the mean income of the whole group. However, even this ethnic economy raises group incomes as long as participants would otherwise have been underemployed, unemployed, or nonworkers. In such a case, an ethnic economy does not accelerate income growth above what full employment would provide, if full employment could be attained, but it does increase mean group income in the face of unemployment and underemployment. Even a poorly remunerated ethnic economy shields resource-poor and disadvantaged groups from unemployment.

Scenarios 3 and 2 are mixed. In scenario 2, employers and the self-employed experience income increase, but their coethnic employees only obtain relief from unemployment. Scenario 2 is what Sanders and Nee found in their study of American Chinatowns. Since the self-employed and employers are more numerous than the employees, scenario 2 accelerates the income growth of the group albeit less than scenario 1. In scenario 3, employers and the self-employed just obtain relief from unemployment while their coethnic employees, few in number, actually earn more than counterparts in the general labor market. Scenario 3 is not just fanciful. When ethnic economies are heavily informal, and employer firms few, as among the Haitians in Miami, coethnic employees in the ethnic economy may earn higher productivity-adjusted money returns than do the self-employed.

Successful self-employment depends upon entrepreneurial capacity. Entrepreneurial capacity requires resources. But self-employment sometimes increases income all by itself. Portes and Zhou compared the incomes of employees in the general labor market and self-employed Cubans, Chinese, Japanese, and Koreans in 1979. They found that self-employment significantly increased incomes in each group net of age, sex, human capital, hours of labor, length of residence in the United States, and marital status. That is, when all of these variables were controlled, Portes and Zhou found that self-employed of these groups still earned more than equally productive coethnics who were employed. For these groups, and others like them, self-employment, and thus participation in the ethnic economy, increased income and wealth, just as the folklore of capitalism proclaims. However, in other cases (e.g., those of blacks and Puerto Ricans, among whom income scenario 4 has long obtained), self-employment only helped the underemployed and unemployed to reduce their poverty, an economic service, but not one that increased income generation or wealth above what full employment would have provided.

Guarnizo usefully distinguished three sectors of the ethnic ownership economy and measured their size. The sectors are subsistence, growth, and transit. Businesses in the subsistence sector provide a sparse living for the owner, but they do not provide a means of upward mobility. Subsistence firms were 43% of the Mexican-owned businesses in Guarnizo’s sample. “In spite of their scantly economic returns and possibilities, entrepreneurs at this level remain in business either because their only alternative is unemployment, or because of an ideological conviction that if they persevere, they will eventually make it.” At the opposite pole, growth firms were vehicles for the upward mobility of their owners. About 21% of Mexican firms were growth firms whose owners enjoyed income mobility. Transition firms were those in the middle, waver between growth and subsistence. These were 36% of all firms in Guarnizo’s sample. These results display the continuum along which ethnic-owned firms array, reminding us that ethnic ownership economies confer a wide range of benefits.

Employment Creation

An ethnic economy’s contribution to employment creation depends upon how successfully it meets three challenges. The first challenge is to generate business firms whose owners have a reliable job in the firm they own. The higher the rate of self-employment, the more jobs an ethnic economy offers as a business owner. Thus, Cubans had 154.1 business owners for every 1000 workers in 1992. Conversely, in the same year, Puerto Ricans had 44 business owners for every 1000 workers. The Puerto Rican rate was only 28% of the Cuban rate. Overlooking for the moment the issue of what might have caused this intergroup difference of rates, a subject we approach in Chapters 4 and 5, one concludes that Cubans were creating jobs for business owners at a more rapid rate than were Puerto Ricans. If Cubans and Puerto Ricans had the same employment chances in the general labor market, Cubans had more employment chances overall than did Puerto Ricans just because their ethnic ownership economy was bigger.

A second challenge involves maximizing the number of employer firms. Unless employer firms have been created, an ethnic economy consists exclusively of nonemployer self-employed. Ethnic economies can expand coethnic employment by adding jobs to firms, not just by self-employed. Generally speaking, the higher the share of employer firms in an ethnic ownership economy, the more employment that economy offers. Employer firms offer the potential for drastically increasing the employment of ethnic economies. Among all American self-
employed persons in 1992, 181 employer firms existed for every 1000 firms. Therefore, operating at the same rate, if an ethnic economy contained 1000 firms, it would contain 181 employing firms and 819 nonemployer firms. However, ethnocultural or ethnorial groups do not convert firms into employer firms at the same rate much less at the average rate. Comparing groups, we find that their ethnic economies contain quite different proportions of employing firms.

For instance, Cubans had 192 employer firms per 1000 firms in 1992, whereas Puerto Ricans had only 130 employer firms per 1000 firms in that year (Table 3.3). However, to explain why Cubans had relatively more employer firms than Puerto Ricans, we must mention two prior challenges, not one. The first challenge involved the Cubans' prior ability to convert civilian labor force into firms that give employment to their owners; the second involves the Cubans' secondary ability to generate employer firms. Because the Cubans could make firms more easily than Puerto Ricans, their ethnic economy offered self-employment to more coethnics. Because the Cubans could also generate a higher proportion of employer firms than could Puerto Ricans, Cubans had a second advantage in employment creation, wage jobs. However, Cubans would have had more employer firms than Puerto Ricans even if they did not have a superior ability to convert firms in general to employer firms. That is, if Cubans had 200 firms and Puerto Ricans only 100, then even if Cubans and Puerto Ricans had the same proportion of employer firms, the Cubans would still have twice as many employer firms as would Puerto Ricans. However, if Cubans also convert firms into employer firms at a rate higher than Puerto Ricans, then Cubans would have more than twice as many employer firms as would Puerto Ricans even though Cubans had only twice as many firms in general. In fact, as Table 3.3 shows, Cubans generated employer firms more abundantly than did the American economy as a whole so that their observed share of employer firms exceeded their share of all firms.

The third challenge of employment creation requires job creation. Success here depends upon how many employees the average employing firm hires. The more employees the average employing firm hires, the more employment that ethnic economy offers. After all, even if employer firms are numerous, they will not create much wage employment if the average employer firm hires only one worker. In fact, a small base of employer firms could create more total employment than a big base provided the firms in the small base economy hire more workers on average than do firms in the big base economy. In the U.S. economy, all employer firms averaged 8.74 employees per firm in 1992. Ethnic economies that surpass this standard converted employer firms to workers at a more rapid rate than did employer firms in general. To establish an ethnic economy's success in this conversion, we need only multiply its employer firms by 8.74 and compare the hypothetical result with the actual number of employees that the ethnic employer firms reported.

Successive Challenges

Table 3.3 accomplishes this exercise. It compares the ethnic economies of two ethnorial categories (Asians and Pacific Islanders, Hispanics) and four ethnic groups (Blacks, Mexicans, Puerto Ricans, Cubans) in 1992. Using published data, Table 3.3 displays each group's actual business parameters in the observed column. Next to that, in the expected column, Table 3.3 displays the number that, given its civilian labor force, each group would have created had it generated this resource at the average rate of the whole American economy. For example, blacks had 620,912 firms in 1992, but they would have had 1,907,621 if blacks had generated firms from their civilian labor force at the same rate as did the entire American economy. Similarly, blacks had 64,478 employer firms in 1992, but they would have had 346,615 employer firms if they had reached the expected number of firms in 1992 and had generated employer firms from that number at the same rate as did the entire American economy. The last column of Table 3.3 shows the observed number as a percentage of the expected. For example, the actual number of black-owned firms was only 32.5% of the number that would have been expected had blacks generated firms at the same rate as did the entire U.S. economy. Similarly, the number of black-owned employer firms was only 18.6% of what it would have been had blacks generated employer firms from all firms at the same rate as did the entire U.S. economy. These employer firms hired only 11.4% as many employees as would have been expected had black-owned employer firms been as numerous as expected and had they hired workers at the same rate as did all employer firms, two prior challenges.

Since Table 3.3 piles up contingencies, ethnic firms that fall short of the first fall farther behind in the second, and failing the second, fall farther behind in the third. Reading down the third column, one notes successive shortfalls in a declining percentage. That is, where a percentage is lower than was the percentage directly above it, the ethnic or racial group or category fell farther behind at this point. Thus, we read that black-owned firms were 32.5% of expected, but black-owned employer firms were only 18.6% of the expected number. Had blacks constructed employer firms at the same rate as the American economy, then black-owned employer firms would have been 32.5% of the expected too. Because blacks constructed fewer employer firms than the economy's average and also created firms at a lower rate than the economy's average, their observed employer firms' share of the expected number was even lower than the share of their observed firms to the expected number of all firms. Similarly, had black-owned employer firms hired employees at the same rate (8.74 employees per firm) as all employer firms, then the employees of black-owned firms would have been 18.6% of the expected number rather than 11.4%. That black firms' employees were an even lower share of the expected number than were the black-owned employer firms indicates that black-owned employer firms, few in number, were
<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Observed</th>
<th>Expected</th>
<th>Observed as percentage of expected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Blacks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All firms</td>
<td>620,912</td>
<td>1,907,621</td>
<td>32.5</td>
</tr>
<tr>
<td>Employer firms</td>
<td>64,478</td>
<td>346,615</td>
<td>18.6</td>
</tr>
<tr>
<td>Employees</td>
<td>345,193</td>
<td>3,029,415</td>
<td>11.4</td>
</tr>
<tr>
<td>Payroll ($1,000)</td>
<td>4,807,000</td>
<td>57,880,002</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Hispanics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All firms</td>
<td>771,708</td>
<td>1,527,228</td>
<td>50.5</td>
</tr>
<tr>
<td>Employer firms</td>
<td>115,364</td>
<td>277,497</td>
<td>41.6</td>
</tr>
<tr>
<td>Employees</td>
<td>691,056</td>
<td>2,245,338</td>
<td>28.5</td>
</tr>
<tr>
<td>Payroll ($1,000)</td>
<td>10,768,000</td>
<td>46,345,015</td>
<td>22.3</td>
</tr>
<tr>
<td><strong>Mexicans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All firms</td>
<td>378,814</td>
<td>580,751</td>
<td>38.6</td>
</tr>
<tr>
<td>Employer firms</td>
<td>56,277</td>
<td>178,202</td>
<td>31.4</td>
</tr>
<tr>
<td>Employees</td>
<td>323,537</td>
<td>402,549</td>
<td>20.2</td>
</tr>
<tr>
<td>Payroll ($1,000)</td>
<td>4,533,844</td>
<td>29,761,694</td>
<td>15.2</td>
</tr>
<tr>
<td><strong>Puerto Ricans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All firms</td>
<td>47,491</td>
<td>144,533</td>
<td>32.8</td>
</tr>
<tr>
<td>Employer firms</td>
<td>6,162</td>
<td>25,262</td>
<td>23.5</td>
</tr>
<tr>
<td>Employees</td>
<td>41,329</td>
<td>119,271</td>
<td>34.7</td>
</tr>
<tr>
<td>Payroll ($1,000)</td>
<td>621,742</td>
<td>3,386,041</td>
<td>14.2</td>
</tr>
<tr>
<td><strong>Cubans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All firms</td>
<td>93,906</td>
<td>81,356</td>
<td>114.4</td>
</tr>
<tr>
<td>Employer firms</td>
<td>17,839</td>
<td>14,783</td>
<td>120.7</td>
</tr>
<tr>
<td>Employees</td>
<td>76,067</td>
<td>66,573</td>
<td>93.0</td>
</tr>
<tr>
<td>Payroll ($1,000)</td>
<td>2,105,136</td>
<td>2,468,553</td>
<td>85.3</td>
</tr>
<tr>
<td><strong>Asians and Pacific Islanders</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All firms</td>
<td>606,426</td>
<td>727,857</td>
<td>83.3</td>
</tr>
<tr>
<td>Employer firms</td>
<td>136,351</td>
<td>132,253</td>
<td>103.1</td>
</tr>
<tr>
<td>Employees</td>
<td>460,075</td>
<td>1,595,604</td>
<td>74.4</td>
</tr>
<tr>
<td>Payroll ($1,000)</td>
<td>13,327,683</td>
<td>22,084,453</td>
<td>60.3</td>
</tr>
</tbody>
</table>

*Expected statistics are generated by multiplication of base numbers derived from the "all persons" statistics. Civilian labor force of each racial/ethnic group in 1992, expressed in thousands, is multiplied by 134.7 to obtain the expected number of all firms. The mean number of firms per 1000 persons in the civilian labor force is 134.7. The expected number of all firms is multiplied by 0.1817 to obtain the expected number of employer firms from the expected number of all firms. Among all persons, employer firms are 0.1817 as numerous as all firms. The expected number of employer firms is multiplied by 8.74 to obtain the observed number of employees. Among all persons, there were an average of 8.74 employees per employer firm. The expected number of employees is multiplied by 19,106 to obtain the expected payroll. Among all employer firms, the average payroll per employee was $19,106.


Ethnic Ownership Economies

also hiring fewer employees per firm than did all employer firms in the American economy.

For the most part, Table 3.3 displays ethnic economies that perform below national norms. Five of six ethnic economies recorded fewer firms than expected; four of six recorded fewer employer firms than expected. All six ethnic economies recorded fewer employees and smaller gross payrolls than expected. Even Cubans, who had more than the expected number of firms and even of employer firms, just as Portes and his coworkers have reported, had fewer employees than expected from national norms and smaller gross payrolls than expected. Since Table 3.3 includes some very large and important groups, its dismal message is of substantive importance: some of the largest ethnoracial minorities have small ethnic economies. This is a critical fact. However, one cannot generalize from the results of Table 3.3 to ethnic groups that are not included because the U.S. Bureau of the Census published no economic data about them. It is likely that Koreans, Greeks, Iranians, and Chinese had larger ethnic economies than the ones recorded in Table 3.3, but no published data prove it.

At the same time, Table 3.3 shows considerable range in the employment generation of the ethnic economies it compares. At the top end, the Cubans had more employers and self-employed than expected and 93% of the employees expected. Adding the self-employed, the employers, and the employees, the Cubans had generated employment in their ethnic economy above the national rate. Where they expected an ethnic ownership economy of 210,562, the Cubans actually had an ethnic ownership economy of 213,573. At the bottom end, African Americans had fewer firms, fewer employers, and fewer employees than would have been expected from national norms. Expecting an ethnic economy of 4,937,036, the African Americans actually had an ethnic economy of only 966,105. The other categories and groups fell between the Cubans and the blacks.

Expanded Ethnic Economies

One way to assess the importance of the ethnic economies' employment contribution is to ask how large that expected ethnic economy's employment was relative to each category's and group's real unemployment problem in 1992. This exercise shows whether the expansion of a group's or category's ethnic economy to the national average might have reduced that group's or category's unemployment. Accordingly, we compare the expected employment that each group would have generated had it reached national norms with its actual unemployment problem, ascertaining how much of that unemployment an expanded ethnic economy could potentially have absorbed. An expanded ethnic economy is the expected ethnic economy minus the observed. This quantity indicates by how much a group's employment would have expanded over the observed if that ethnic economy had met national averages. If the expanded ethnic economy surpasses a category's total unemployment, we can conclude that expansion of the ethnic economy to
the national average, were that possible, might reduce unemployment among coethnics.

Table 3.4 compares the observed and expanded ethnic economy with total unemployment and the unemployment rate for the five ethnoracial groups for whom the U.S. Bureau of the Census published economic data. Among blacks, Hispanics, Mexicans, and Puerto Ricans, the expanded ethnic economy greatly exceeded total unemployment of coethnics in 1992, indicating that expanding the ethnic economy of these groups and categories had some potential for reducing group unemployment. In fact, expansion of the African American ethnic economy beyond its actual size to half the expected size would have created 2,011,000 new jobs and businesses in 1992, enough potentially to employ the entire population of unemployed blacks in that year. A comparable expansion of the Hispanic ethnic economy to 50% of the economy's average would also have created enough new jobs and businesses to employ all the unemployed Hispanics.

However, although expansion of an ethnic economy has the potential to reduce a group's unemployment, the case of the Cubans suggests that even strong expansion of an ethnic economy need not eliminate unemployment. That is, the Cuban ethnic economy had exceeded national norms in 1992, but 7.8% of Cubans still remained unemployed in that year. We do not know how much or even whether drastic expansion of the Cuban ethnic economy beyond this level would ultimately have eliminated unemployment among Cubans. But it is clear that merely exceeding national norms did not achieve this goal in 1992. This result should not surprise us. After all, the well-developed ethnic economies of non-Hispanic whites had not eliminated unemployment among whites in 1992 either. One obvious reason is the ethnic pluralism of the actual employment base, a reality that census data do not expose. Although ethnoracial particularism is a strong factor in small firms' hiring, even ethnic firms hire noncoethnics; Cubans hire some non-Cubans, African Americans hire some nonblacks, Koreans hire some non-Koreans, and so forth. In the preceding chapter, we estimated that 50% of the employees of ethnic firms were coethnics, and the other 50% were not. Therefore, expansion of an ethnic economy's wage sector need not reduce unemployment among coethnics beyond any actual preference or advantage that the coethnics receive in hiring. In an extreme case, actually documented in the literature, where ethnic entrepreneurs prefer noncoethnics, even drastic expansion of the ethnic employers' employment base will not reduce coethnic unemployment at all.

Nonetheless, within this limitation, expansion of ethnic ownership economies reduces coethnics' unemployment rate and increases their labor force participation. Indeed, the existence of ethnic economies shows that some of this reduction has already occurred. In the case of African Americans, whose ethnic economy is small, Table 3.4 shows that nearly a million workers owed their employment to it in 1992. A thought experiment makes the point. If this African American ethnic economy had disintegrated all at once on January 1, 1993, would all of those 966,105 workers have found jobs in the general labor market on January 2, or would some of them have become unemployed? If even half of them would have become unemployed, then the African American economy in 1992 had already reduced African American unemployment by nearly 15% below what it otherwise would have been. If all of them would have become unemployed on January 2, then the African American ethnic economy had already reduced unemployment among coethnics by about 30%. Thus, even in this relatively small one, the ethnic ownership economy's contribution to coethnic employment was appreciable and should be considered an economic contribution in conjunction with its contribution to wealth, income, and wages.

### Wages in the Ethnic Economy

Returning now to wages in the ethnic economy, discussed previously, we find useful evidence in Table 3.3. This table shows that for all six of the ethnoracial groups and categories, payroll was the weakest performer among all ethnic economies. Compared with the ethnic economies' production of employer firms and of employees, which was generally weak, the ownership economies' production of payroll was even weaker. For example, in the case of African Americans, their ethnic economy generated only 11.4% as many employees as it would have had the African American ethnic economy generated employees at the same rate as the general economy. However, the African American ethnic economy

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**TABLE 3.4 Unemployed and Ethnic Economy Employment, 1992**

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Number</th>
<th>Rate</th>
<th>Observed</th>
<th>Expanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blacks</td>
<td>2,011,000</td>
<td>14.2</td>
<td>966,105</td>
<td>3,970,931</td>
</tr>
<tr>
<td>Hispanics</td>
<td>1,311,000</td>
<td>7.7</td>
<td>1,462,764</td>
<td>2,489,792</td>
</tr>
<tr>
<td>Mexicans</td>
<td>752,000</td>
<td>10.7</td>
<td>702,497</td>
<td>1,835,745</td>
</tr>
<tr>
<td>Puerto Ricans</td>
<td>141,000</td>
<td>13.1</td>
<td>81,198</td>
<td>374,060</td>
</tr>
<tr>
<td>Cubans</td>
<td>47,000</td>
<td>7.8</td>
<td>215,573</td>
<td>-3,011</td>
</tr>
</tbody>
</table>

*The expanded ethnic economy = ES + EW - (OS + OW), where ES is a group's expected total self-employment, EW is a group's expected wage employment, OS is a group's observed self-employment, and OW is a group's observed wage employment.

generated only 8.3% of the expected payroll. This amounts to 27% less payroll than employees. These are low-paying jobs. Even Cubans, whose employer firms and employees exceeded national norms in number, produced only 85% of the expected payroll. The Cubans' payroll was 8% below their employment.

The implication is straightforward: ethnic economies pay lower wages than the general labor market. However, although all ethnic economies pay badly, some pay worse than others. The Puerto Rican ethnic economy, small in size, paid the highest wages, reaching 96.5% of the expected level. At the opposite extreme, the African American ethnic economy's payroll was only 72.8% of what it would have been had the African American ethnic economy paid wages at the average level of the general labor market. Other groups fell between Puerto Ricans at the top and African Americans at the bottom. Although the data in Table 3.3 are not comprehensive, and the possibility exists that some ethnic economies for whom the U.S. Bureau of the Census did not report economic data actually meet or exceed national payroll levels, the results in Table 3.3 warrant the conclusion that payroll is the weakest performance dimension of ethnic economies and that major ethnic economies pay wages that are below the average level in the general labor market.

From these conclusions one might infer, as Sanders and Nee did, that employers are the only economic beneficiaries of ethnic economies and that employers in ethnic economies exploit their coethnic workers by paying them very low wages. This conclusion fits some individual ethnic economies in some localities, but it would be premature to embrace the generalization. First, the real issue is not whether ethnic economies generate payroll at the same rate as does the general labor market but whether ethnic economies reward employee productivity as generously as do American firms in general. If employees in ethnic economies are the least productive, least skilled, and least educated of coethnics, then it would be no wonder if they were paid less on average than more qualified coethnics employed in the general labor market. Exactly this situation prevails in the ethnic economy's informal sector, whose workers are, on average, less educated than those in the formal sector. Moreover, the evidence on productivity-adjusted wages is equivocal. Some researchers report that ethnic economies pay productivity-adjusted wages that match those in the general economy to all their employees; others report that male employees in ethnic economies receive productivity-adjusted wages that are as high as those in the general labor market, but female employees do not; still others report that no employees obtain productivity-adjusted wages that equal those paid in the general labor market. Conclusive evidence is not yet available.

Additionally, even when ethnic economies pay productivity-adjusted wages appreciably lower than those in the general labor market, the possibility exists that the low wages are a condition of the job's existence. In that case, the low wages and the job itself represent contributions of the ethnic economy to employment of coethnics, and the low wage exceeds the general labor market's counteroffer.

Consider a situation in which 500 Chinese waiters in Los Angeles's Chinatown average only $6/hour whereas 5 Chinese waiters outside Chinatown average $20/hour. This situation is unfair, and it suggests that Chinese restaurant owners are exploiting their coethnic waiters by paying them less than what they would obtain outside Chinatown. Unfortunately, it may turn out that there are no more waiters' jobs outside Chinatown, and, worse, the Chinatown restaurants obtain business by price competition with restaurants outside Chinatown. The low prices bring customers into Chinatown restaurants and are a condition of existence for the Chinatown restaurants. In this case, a realistic one, the highly unequal productivity-adjusted wages inside and outside Chinatown do not prove that Chinese restaurant owners exploit Chinese waiters. Possibly the inexpensive Chinese restaurants they created had created 500 low-wage jobs for waiters, taking 500 people off the unemployment rolls to fill them. Karl Marx would agree that unless we know the owners' profit, we cannot infer exploitation from low wages alone.

Finally, more than half of the participants in most ethnic economies nonemploying self-employed. In the African American ethnic economy, for example, we find 556,434 nonemployer self-employed, 64,478 employers, and 345,193 employees (Table 3.3). Even if all the employers exploit all their workers, only 42% of those in the African American ethnic economy would be exploited or exploiters. Approximately 58% of the workers in the African American ethnic economy are nonemployer self-employed who, employing no workers, cannot exploit any workers. To the extent that these nonemploying self-employed obtain wealth and income that facilitate their economic mobility, the African American ethnic economy enhances the economic welfare of most of its participants even if, for the sake of argument, we stipulate that all the ethnic economy's coethnic employees are exploited. Under the circumstances, evidence that ethnic economy wages are low cannot support the inference that bosses exploit workers or that ethnic economies benefit only employers.

These conclusions are only strengthened when we include the ethnic economy's informal economy sector in our assessment of the overall economic advantage of ethnic ownership economies. The economic information reported by the U.S. Bureau of the Census (Table 3.3) completely excludes the informal economy, and this exclusion most understates the ethnic economies of poorer and resource-endowed groups such as Mexicans and African Americans. Self-employed workers in the informal sector are predominantly those who have less skill and productivity in the first place, and, to that extent, the low money returns of the informal economy are comparable to what they might earn in the general labor market. Additionally, people in the informal economy are mostly underemployed or unemployed. They are people to whom the general labor market offers either no income or not enough. Many are desperate. Therefore, they undertake self-employment to obtain some money where otherwise they would have none. Under the circumstances, the ethnic economy's informal sector just adds
employment to the ethnic group and reduces real unemployment and underemployment. Finally, most people in the informal sector are self-employed, not employees. The garment manufacturing industry is the major exception. Therefore, most informal economy workers cannot be exploited by bosses. If the ethnic economy’s informal sector just disappeared tomorrow, then the economic welfare of the participants, who are usually recruited from the poorest ethnic minorities, would immediately decline. It makes no sense to reject the economic contribution of the ethnic economy’s formal sector, declaring it exploitative, without rejecting that of the ethnic economy’s informal sector too. We regret that market capitalism does not now and rarely has in the past provided full employment. However, ethnic economies relieve this situation.

Illegal Enterprise

Illegal enterprise is the ethnic economy’s third sector, and we are bound to ask, following the logic of this inquiry, whether racketeers would not prosper better if they had wage jobs in the general labor market. On its face, this question is preposterous. The Godfather does not want a loading job in a warehouse! However, when they have matured out of youthful recklessness, many successful racketeers prefer legitimate business to illegal business. Indeed, for those most successful in organized crime, the usual way out of the racket is not through police suppression, the legend of Elliot Ness notwithstanding, but rather through the slow intergenerational transfer of assets from illegal business to legal business. Once reinvested in Nevada real estate or casinos, dollars that originated in illegal drug deals create a legal business whose owners are entrepreneurs, not racketeers. Thanks to the fluidity of American society, even one generation away from crime, the children of successful racketeers can move into elite status. The archetype is President John F. Kennedy, whose father made the family fortune by bootlegging liquor during the Prohibition era, 1919–1933. What Daniel Bell once called a “queer ladder of mobility” has permitted many illegal entrepreneurs, their children, and grandchildren to break into respectability.

Of course, everyone in the illegal economy is not the Godfather; whether employed or self-employed, most organized criminals earn modest incomes in crime careers that are interrupted by imprisonment and shortened by violent death. Gang members expect to die young. From a narrow economic standpoint, a warehouseman’s job would usually be more lucrative than a gangster’s if only because a warehouseman can anticipate more earning years thanks to his longer life span. In illegal enterprise as in crime generally, the excitement and the enjoyment of power, not just the money, are major attractions that bring people to the life. However, for most youthful offenders who survive the adolescent years, when heart means everything, maturation breeds reflection upon the incarceration and brutal death that await them. At this point, the decision to remain in illegal enter-

prise does compete with economic alternatives available in the general labor market as well as with legal sectors of the ethnic economy. By age 28, 85% of ex-delinquents have exited crime forever. Were there more legitimate options available to mature criminals, possibly more would retire from illegal enterprise than actually do so. To that extent at least, the employment creation capability of the illegal sector locks some participants into lifelong careers in illegal enterprise. Realistically speaking, the ethnic economy’s legal sector is the most likely employer for such disillusioned gangsters, whose educational attainment is weak. Since their educational credentials are weak, the ex-racketeers cannot get jobs in the general labor market. The attraction of former racketeers into legitimate business is an unrecognized contribution of ethnic economies to social order.

THE ETHNIC-CONTROLLED ECONOMY

Job Capture

Turning now to ethnic-controlled economies, we first address job capture. Job capture means mainstream jobs that are reserved to coethnics. Job capture mainly occurs when ethnic employees in the general labor market obtain the ability to control hiring. Craft unions capture jobs in this way. However, job capture also occurs when persons outside the workplace mobilize political or economic power to reserve hiring for certain mainstream jobs to members of designated ethnic groups or categories. Affirmative action policies capture jobs in this way. Of course, even without job capture, coethnics have a legal right to compete for jobs, but in a fair competition only as many coethnics succeed as win the competition. Job capture reserves hiring for coethnics, releasing them from competition with noncoethnics and tilting the odds in their favor. The advantages of job capture accrue as much to the whole ethnic group as to the successful job candidates.

Here is how job capture tilts the odds of employment. Suppose that A and B are ethnic groups, each of which is sending 50 workers to compete for jobs in an industry that offers only 50 jobs. That means 100 workers are competing for 50 jobs. On their merits, group A members will get 25 jobs, group B members the other 25, and both groups will have 25 unemployed. However, if group A creates an ethnic-controlled economy that reserves 10 of the 50 jobs to group A members, excluding group B members, then group A will get 30 jobs (10 + 40/2) and group B will get 20 jobs. As a result, the unemployment rate of group A will decrease, and that of group B will increase. The average income of group A will also increase. As a result of the job capture, 5 more group A members will have employment than would otherwise have had it.

If group B obtains the same hiring advantage in another equivalent-sized industry, then the balance of welfare will not have changed. Group A’s captures counterbalance group B’s. Each group has exactly as many jobs as they would
have had under a regime of equal employment opportunity. However, even when this equality of job capture reigns, members of both group A and group B would now experience discriminatory treatment when they attempt to get jobs in the other's ethnic-controlled economy. In an extreme case, where a whole economy was divided into A jobs and B jobs, anyone who ventured outside his or her group's sector would encounter discriminatory exclusion. Discrimination would increase rejectees' consciousness of ethnic group membership as well as their dislike of the other ethnic group. Worse, neither group A nor group B could unilaterally dismantle its own ethnic-controlled economy without economic disadvantage. On the other hand, the prospect of creating more ethnic-controlled economies in new industries would offer possible advantages for both groups, thus encouraging their efforts to extend existing ethnic-controlled economies and to create new ones. In this Hobbesian economic world, permanent disadvantage of group B would arise when group A had established many more ethnic-controlled economies than had group B. As a result, group A would successfully exclude members of group B from more jobs than group B would exclude members from.

We distinguish full and partial job capture. Full job capture arises when all the jobs in some occupation, industry, or workplace are reserved for coethnics. Full job capture is unusual except in legally segregated societies such as the Union of South Africa once was. Partial job capture occurs when only some jobs are thus reserved, and others are available to any applicants, regardless of ethnic origin, on the basis of merit. Thus, when coethnic have captured 1/10 of the jobs, they have not captured 90% of the jobs, which are open to all. However, where they would otherwise routinely expect to get only 1/20, capture of 1/10 of the jobs doubles their share. Partial job capture obviously expands group welfare less than full captures, but partial captures can be increased over time, and, from the point of view of the captures, partial job capture is superior to equal hiring opportunity.

Job capture has a long history. The most egregious contemporary cases come from the construction industry, where ethnic unions still prevail. Craft unions require employers to hire only union members, and they exclude from union membership applicants who are not related by blood or marriage to current or past union members. These work rules indirectly link ethnic origins to union membership since only those who intermarry acquire the qualification to join the union. In the nineteenth century all unions were craft unions. This situation no longer exists, and most unions are not craft unions anymore. However, in the building trades, most unions still are craft unions. The work rules of the building trades craft unions capture jobs for coethnics. This outcome is not fortuitous. Ethnic consciousness is close to the surface in the building industry's craft unions. As a result of government efforts to open opportunities for black construction workers, building trades unions have engaged in 30 years of defensive litigation, and governments, writes Waldinger, have failed to change hiring very much.

Fire departments tend also toward nepotistic qualification that perpetuates ethnic job capture. Waldinger writes that "Firefighting enjoys a well-deserved reputation for intergenerational succession." Although governments have attempted to open fire departments to blacks as well as to women, their success has not been great. New York City's fire department was 93% white in 1990, down from 96% white 30 years earlier. Admittedly, fire departments are public sector occupations, recruitment to which requires applicants to pass competitive examinations. Few blacks and few women apply to take fire department examinations, and even fewer pass the examinations. Therefore, the process of intergenerational transmission of this occupation does not depend, as it does in the building trades, upon nepotistic work rules. Rather, existing fire department personnel virtually monopolize the skills and motivation to do this job, and they are very well organized to insert their kin into the hiring process. These are cultural resources. The example makes the point that job capture is not necessarily against the public interest since the most qualified applicants are apparently getting the jobs thanks to an occupational culture that reproduces competence in the younger generation.

Occupational and industrial clustering commonly bespeak job capture. In an effort to ascertain how advantageous had been occupational clustering, Suzanne Model and John Logan independently reviewed the occupational and industrial history of New York City's ethnic minorities and white immigrants between 1910 and 1960. Model proposed that occupational and industrial clusters were either neutral or positive in their long-term economic effect on men, never negative. She advanced two grounds for expecting positive long-term economic effects of clustering among male employees in the mainstream. First, coethnic clusters facilitate coethnic job searches. Second, coethnic clusters facilitate unionization, which improves wages and working conditions. We accept Model's points, but wish to slightly clarify their import. Facilitating job searches leads to job capture. Job capture is, we submit, the real advantage to which the facilitation of coethnic job search really leads. Beyond job capture, the advantages of coethnic clustering among employees also leads, we agree, straight to unionization, and, short of caste formation, coethnic craft unions are the farthest terminus of this progression. However, even work settings in which coethnic clusters do not create coethnic unions, employers know that the clusters can confer market power upon nonunionized employees. Market power enhances the ability of even nonunionized workers to raise wages and improve working conditions.

Model's evidence confirmed the contribution of ethnic-controlled economies to group welfare. "At one or another point in time, each group studied here profited from one or more niches." However, blacks and Puerto Ricans did not form so many niches as had earlier white immigrants and so did not equivalently benefit from them. In fact, Model understands affirmative action policies, which began in the 1970s and built African American clusters in the public sector, as attempts to redress the lack of ethnic-controlled economies ("niches") among blacks. An interesting exception is the Brotherhood of Sleeping Car Porters, which was a black-controlled railroad union in the days of Pullman sleeping cars. Only blacks worked in this occupation; all joined the union. Union members
earned wages 20% higher than those externally prevailing among southern blacks. Malcolm X was once a member of this union, and one supposes that, if African Americans had enjoyed 20 more such unions, their economic welfare would have been higher than it actually was.

Assessing the contribution of clusters to the economic welfare of white immigrants and their descendants in roughly the same period earlier studied by Suzanne Model, John Logan found that native whites enjoyed more riches than immigrant whites in 1920.79 Later the immigrants caught up, and native-white riches declined in number. Like Model, Logan interpreted a shortfall of clustering as indicative of economic disadvantage, but, in this case, the immigrant whites were disadvantaged vis-a-vis the nonimmigrant whites. The clusters of the white immigrants persisted over three generations, affecting the life chances of their grandchildren. The surprising persistence resulted, Logan supposed, because "group members consciously build upon ethnic social networks to find jobs, to attempt to control access to those jobs ... and to do all the other things that affect success or failure in the economy." The protracted survival of these ethnic-controlled economies suggests that they enhanced income because city people do not stay in underpaid industries or occupations over three generations.

If ethnic-controlled economies conferred only benefits, and no disadvantages, assimilation theory would simply collapse. Assimilation theory predicts that ethnic-controlled economies should not survive the immigrant generation. After that, the descendants of immigrants will find their economic interest best served if they move into the general labor market. As Reitz put it, "Mobility to high-status occupations usually means mobility out of ethnic specializations." Obviously, the results of Logan and of Model do not confirm assimilation theory, but other research has been kinder. In his study of seven immigrant groups in Toronto, Reitz isolated what amount to ethnic-controlled economies although he did not use that terminology. His is the only research that has used this approach. For male employees, the correlation between working in ethnic-controlled economies and income was .086 and for female employees, -.26. For men, the correlation between having many coethnic workers and income was -.10 and for women, -.152. These results range between mixed for men to strongly negative for women. However, when Reitz turned to regression, a stricter technique, he found that ethnic-controlled economies slightly increased the earnings of male employees but had no effect upon the earnings of women.

SUMMARY AND CONCLUSION

The research debate has focused heavily on the issue of how economically advantageous ethnic economies are to participants. An important position maintains that ethnic ownership economies benefit employers but reduce the economic welfare of their employees. Reviewing the topics of wealth generation, proprietor's income, employment creation, and wages, we have revisited this debate, adding some new census-derived evidence. The issue of wealth creation has not received so much attention in the research literature as it deserves. Available evidence shows that the self-employed have 10 to 14 times the wealth of employees. This situation colors our interpretation of the equivocal research results about the relative money incomes of self-employed and equally productive employees. Although outcomes vary among locales, research literature generally shows that the self-employed fall slightly behind equally productive employees in income. Nonetheless, the self-employed's compensation of 10 to 14 times the employees' wealth is quite generous. Many self-employed persons have higher incomes as well as higher wealth; others have only higher wealth. On balance, then, the joint income and wealth situation of the self-employed considerably surpasses the situation of employees. As a result, except during depressions, increases in the proportion of self-employed within ethnocultural minorities transfer workers from less to more rewarded occupations, accelerate the long-term generation of wealth that will be intergenerationally transmissible, and increase the economic welfare of the group.

The extent of worker exploitation in ethnic economies has attracted much debate. Our census-derived evidence shows that ethnic economies pay lower wages than does the general labor market, apparently confirming superexploitation within ethnic economies. However, the real issue is productivity-adjusted wages, not just relative wages. Research studies show that productivity-adjusted wages in ethnic economies sometimes exceed, sometimes match, and sometimes fall behind wages in the general labor market. Because research results are mixed, one cannot reach a final judgment about the productivity-adjusted wages within ethnic economies. Moreover, to the extent that ethnic economies create jobs for the unemployed and underemployed, ethnic economies put money in the hands of people who would otherwise have none. Even when the wages paid them fall below those of equally productive coethnics in the general labor market, ethnic economy employees know and often state that their rotten job stands between them and destitution. Additionally, most of the workers in ethnic economies are non-employed self-employed who cannot exploit any employees. The debate about worker exploitation just does not engage this modal group. Finally, ethnic economy firms are not very profitable, and there can be no exploitation without profits.

Unlike the formal sector, in which this issue is uncertain, the ethnic economy's informal sector definitely pays workers and self-employed less than they would earn in the general labor market. However, in this sector, more than in the formal sector, the ethnic economy's workers are aware that their informal sector work is their only realistic alternative to underemployment and unemployment. Within the ethnic economy's illegal sector, successful racketeers earn high incomes while the rank and file just get by, contenting themselves with the nonfinancial rewards of their jobs. However, for successful entrepreneurs of illegal business and their descendants, the main exit from illegal enterprise is into the ethnic economy's
formal sector, which alone offers realistic alternatives to their illegal occupations. Laundered money, contributed by racketeers, is an influential source of capital in the formal sector of ethnic ownership economies.

Ethnic-controlled economies are occupational and industrial clusters of employees in the mainstream. Whereas assimilation theory predicts that such clusters should disintegrate over generations, as their former participants scatter into the mainstream, the research of Wadlington, Model, and Logan all found long-term persistence in New York City. Historical persistence implies a continuing contribution to the welfare of participants over three generations. Of course, one cannot build an entirely convincing case around one city, even if it is New York. Unfortunately, only Reitz’s study of Toronto takes us outside the Big Apple. Using a cross-sectional, nonhistorical design, Reitz found weak support for the income advantages of ethnic-controlled economies among men and none among women. Possibly women derive no advantage from ethnic-controlled economies because women are harder to unionize than men. At any event, Reitz’s results do show some modest advantages of ethnic-controlled economies among men. Among women, Reitz found no advantage to either working in the mainstream or working in clusters, a neutral result.

In a world of full employment and nondiscrimination, ethnic ownership economies and ethnic-controlled economies would be unnecessary because everyone would obtain a suitable job in the general labor market. However, market capitalism has never offered such a world in the past and probably will not do so in the future. Given unemployment and discrimination, ugly realities of the work world, successful ethnic ownership economies accelerate wealth creation, income generation, and employment options for coethnics. Even unsuccessful ethnic economies, small and concentrated in the informal sector, move participants from starvation to survival, a kind of economic mobility. The informal sector of ethnic economies is the only real economic competitor to illegal enterprise and probably sucks more gangsters from racketeering crime than do the police, courts, and prisons. Big and successful ethnic economies produce more wealth and income than small and struggling ones, but even small and struggling ethnic economies confer significant economic benefit upon the ethneracial communities to which they are adjunct.

Ethnic-controlled economies capture jobs; they do not create them as do ethnic ownership economies. Job capture tends to balkanize labor markets and to aggravate intergroup relations. These consequences are undesirable from the point of view of social policy. However, if we ask whether ethnic-controlled economies produce income advantages for participants, available evidence suggests that the answer must be yes. First, they give jobs to those who otherwise would lack them. Second, at least for men, ethnic-controlled economies increase incomes over what equally productive coethnics obtain in the general labor market. That is why they persist over generations. If so, employees are defending and promoting their economic self-interest when they build and defend ethnic-controlled economies.
Family business. This Chinese-Vietnamese family owns an herb and tea shop in Southern California. Family members pooled their money and labor to purchase this business and a home, and to pay for their children's college tuition. Ties to relatives and coethnics overseas facilitate their importation of perishable goods for sale.

The number of women entrepreneurs, such as this Vietnamese food distributor and this Soviet Jewish cardiologist, has been growing at a rapid rate since the late 1980s. Through self-employment, some women can escape the limited range of social and economic options available in the larger society.
Ethnic media. A billboard advertising a “salsa rock” radio program on Sixth Street between downtown Los Angeles and Boyle Heights, a Chicano enclave. A profit-making enterprise, ethnic media do much to provide ethnic communities with entertainment, guidance, and information unavailable elsewhere in the host society. In recent years, Latino ownership of AM radio stations has increased.

The previous chapter defined entrepreneurial capacity as the ability to open and operate numerous, large, and lucrative business firms.1 Entrepreneurial capacity means having whatever it takes to succeed in business, but what exactly does it take? In addition to being in the right place at the right time, partially a matter of luck, it takes resources. Entrepreneurs need resources. Useful as far as it goes, the concept of entrepreneurial capacity is just a cipher for the resources that create it, and the real task of explaining ethnic ownership economies requires one to identify and classify the needed resources. Here the key distinction is between class resources and ethnic resources.2 This distinction does not imply mutual exclusivity such that some entrepreneurs use ethnic and others use class resources. Rather, when they build ethnic ownership economies, ethnored groups and ethnic entrepreneurs have and utilize both class and ethnic resources albeit in differing proportions. Although real ethnic economies blend class and ethnic resources, this chapter addresses class resources, leaving ethnic resources to the next chapter.

In classical Marxism, a bourgeoisie owns the means of production and distribution within market economies.3 Narrowly defined, a bourgeoisie consists of all the employers in an economy’s formal sector. Marxists also distinguish a large and small bourgeoisie, depending upon the size of their firm; Marxists include nonemployer self-employed among the small bourgeoisie.4 Marxists do not
include in the bourgeoisie any employers or self-employed in the illegal sector nor any business owners in the informal sector. Since we wish to include all business owners, a Marxist bourgeoisie is too narrow. Therefore, we broaden the Marxist bourgeoisie to include business owners in each of the three sectors, formal, informal, and illegal. This concept we call the class of business owners to distinguish it from the Marxist concept of bourgeoisie. The class of business owners consists of all business owners in any sector: formal, informal, or illegal. A bourgeoisie consists only of employers in the formal sector. A bourgeoisie is the elite of the business class.

Class resources are the vocationally relevant cultural and material endowment of bourgeoisies. Business owners possess class resources, too, but in lesser amounts. Class resources enable entrepreneurs to initiate and to run business firms in the formal sector. A defining feature of class resources is univacency. Class resources lack distinctive ethnic or cultural character. The bourgeoisie of Finland possesses them just as does the bourgeoisie of Taiwan. Every bourgeoisie possesses the same class resources but not necessarily the same resources in the same quantities. Class resources are material or cultural. On the material side, class resources include private property and wealth. In the Marxist lexicon, the bourgeoisie's property was its only resource. Neoclassical economists now add human capital to this list of material resources because human capital requires a prior financial investment. For that reason, an individual's ownership of human capital imposes a money cost.

On the cultural side, class resources include occupationally relevant and supportive values, attitudes, knowledge, and skills transmitted in the course of socialization from one generation to another. Since the occupation of bourgeoisies is to initiate, own, and operate business firms, their occupational culture contains all the skills they need to practice their occupation. Bourgeois occupational culture means cultural endowment (values, skills, attitudes, knowledge) characteristic of bourgeoisies around the world, and which, furthermore, distinguishes bourgeoisies from nonbourgeois coethnics while linking the bourgeoisie to noncoethnics elsewhere. The ability to communicate in English is a good example. In non-English-speaking countries, bourgeoisies learn English because English is now the lingua franca of international business. Whether in Taiwan or Finland, bourgeoisies learn English, and their knowledge of it represents a class resource precisely because and insofar as all business owners share this knowledge.

However, when they speak Finnish or Chinese to coethnic employees, Finnish or Chinese business owners avail themselves of linguistic knowledge that is ethnocultural in origin. Bourgeoisies are ethnic, and they have ethnic resources, but their ethnicity does not define their class status.

FORMS OF CAPITAL

All class resources are forms of capital. Capital is any store of value that assists production and productivity. The classic form of capital is financial capital. Money and wealth are the two main forms of financial capital. Ethnocultural and ethno-religious groups possess unequal financial capital; some are wealthy, others poor, and still others middling. It is not newsworthy to observe that wealthy groups respond more successfully to opportunities for formal sector entrepreneurship than do poor groups. They build larger and more successful ethnic ownership economies in consequence. Clearly, the unequal financial capital access of ethnocultural groups and categories importantly explains the very intergroup and interlocal variations in ethnic entrepreneurship we documented in Chapters 2 and 3. We acknowledge the big role that financial capital plays in building ethnic economies. For example, whites own and operate more and bigger businesses than blacks. The superior financial resources of the whites importantly explain why their ethnic ownership economies are bigger. Because whites are wealthier than blacks, whites can inject more equity capital, and they can borrow more debt capital. The key question, however, is whether financial assets, a class resource, provide a complete explanation for black-white differences and, indeed, for all intergroup differences in ethnic ownership economies. If so, we would have a class only explanation that depended exclusively upon intergroup differences in wealth, a class resource, to explain why one group's ethnic economy surpassed another's.

A financial explanation of black-white differences in self-employment is more than 125 years old, and this explanation still recurs in casual treatments of this important topic. This argument explains black-white differences in ethnic ownership economy on the basis of the blacks' low incomes, their societal victimization, and the racial discrimination of white bankers. That is, blacks lack the capital to start up their own businesses, and they cannot borrow it either. Persuasive as far as it goes, and, as we show in Chapter 9, importantly true, this argument falls short of completeness. First, other immigrant and ethnic minority groups are or have been poor and subject to discrimination by bankers and employers, yet some poor groups have built bigger ethnic ownership economies than others. Ofentimes groups subjected to equal discrimination are unequally successful in entrepreneurship. Indeed, some ethnocultural minorities outperform the entrepreneurship of the white majority. Similarly, if wealth or access to debt capital simply explained entrepreneurship, then the native born ought to evidence higher entrepreneurship than the foreign born, but we observe the opposite. The foreign born are more frequently self-employed than the native born among every ethnocultural group and category.

Finally, scholars have known for half a century that small business start-ups depend upon the owner's savings rather than upon bank loans. Blacks also have started businesses from personal savings rather than from loans. Table 4.1 shows that 70% of business owners of all ethnocultural groups did not borrow money in order to start their own businesses. Of those who did borrow, as many borrowed from family, friends, and kin as borrowed from banks. Bank loans influence the start-up of big and medium business; they do not influence small business. Therefore, however reprehensible, banker discrimination cannot explain much intergroup difference in ethnic small business because bankers' role in small
TABLE 4.1 Sources of Borrowed Capital for Business Firms, 1987

<table>
<thead>
<tr>
<th></th>
<th>Spouse, family, and friends</th>
<th>Bank loan</th>
<th>Government</th>
<th>Did not borrow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hispanic</td>
<td>10.5</td>
<td>8.7</td>
<td>0.4</td>
<td>70.3</td>
</tr>
<tr>
<td>Black</td>
<td>6.8</td>
<td>9.5</td>
<td>0.9</td>
<td>69.6</td>
</tr>
<tr>
<td>Asian</td>
<td>22.8</td>
<td>12.2</td>
<td>0.5</td>
<td>58.6</td>
</tr>
<tr>
<td>Women</td>
<td>7.4</td>
<td>10.5</td>
<td>0.3</td>
<td>73.7</td>
</tr>
<tr>
<td>White men</td>
<td>9.8</td>
<td>16.0</td>
<td>0.5</td>
<td>66.8</td>
</tr>
</tbody>
</table>

*Owners who did not require capital to start their businesses or who did not borrow the required capital.

*Includes Pacific Islanders and American Indians.


Business funding has long been minimal. As we document more completely in Chapter 9, bankers have historically ignored the capital needs of small business owners of every ethnorracial background. Therefore, small business start-ups have always depended most upon the savings of owners and secondarily upon loans from kin and friends.30 Bank loans have always been less important than the other two in funding small business start-ups. Savings depend upon the savings rate within one's group. Thrifty communities generate more financial capital than others. Of course, economic conditions, interest rates, and income level also affect the savings rate of every ethnorracial group. However, net of economic conditions and income level, some groups save more and lend more than others. The causes of intergroup disparity in savings rate include values and attitudes that bear upon saving and lending, the size and integrity of the group's kinship system, and the availability of rotating credit associations.31 These are not class resources.

Likewise, the ability of small entrepreneurs to borrow depends upon their integration into cultures whose norms endorse philanthropic lending within families. Some cultures encourage lending to family members; others do not. According to Yen-Fen Tseng, “the Chinese are more likely to finance their businesses with capital borrowing from parents and relatives than the general [American] population.”32 Similarly, the remarkable entrepreneurship of the Pennsylvania Amish relies squarely on normatively prescribed lending.33 American culture does not meet the Chinese or the Amish standard for lending or saving.34 Family size matters too. The larger these family units, the larger the pool of people from whom small entrepreneurs might borrow.35 Pennsylvania Amish couples average 10 children per couple, and each child has 75 first cousins, each of whom is available as a potential lender.36 Since the size of families, their integration in networks, and their borrowing norms are cultural issues, the ability of entrepreneurs to borrow from families depends upon the cultural group to which they belong. Some cultural groups provide entrepreneurs with greater access to family capital than do others. Zimmer and Aldrich reported that Asian shopkeepers in London borrowed money from family and friends to a greater extent than did whites.27 In Bradford, 49% of Asian owners but only 3% of white owners acknowledged the use of money borrowed from friends. Zimmer and Aldrich conclude that “Asians and whites differ significantly in how they mobilized capital.”38 Even Bates concedes that Asians borrowed from kin and friends three times more frequently than white Americans.39 Young and Sonstz similarly found that only 24% of Hispanic grocers received help from friends or family when starting up, but 57% of Korean grocers had received that help.40

Beyond the family and extended family stand formal and informal ethnic group institutions of savings and credit. Tenenbaum has shown how much the prewar entrepreneurship of Jews benefited from the Hebrew Free Loan Associations, a unique philanthropic institution of the Jewish communities.41 Similarly, rotating credit associations have supported the entrepreneurship of Asians and West Indians in North America.42 Since poor whites and blacks lacked either cultural tradition, Jews and Asians had the advantage of unique business-supporting financial institutions.43 When ethnic institutions of saving or credit affect the creation of ethnic economies, we cannot explain why one group's ethnic ownership economy surpasses another's just on the strength of prior differences in financial wealth.

**HUMAN CAPITAL**

Like the classical economists, his contemporaries, Karl Marx considered money, commodities, and physical capital the only forms of capital.44 Contemporary social science has rejected this nineteenth-century view. Social scientists now recognize three additional forms of capital of which human capital is the older brother. Recognizing this priority, Balkin declares that human capital gives "the basic conceptual framework" to studies of entrepreneurship.38 Human capital means an individual's investment in personal productivity. Productivity is a person's ability to add value by doing work. Education and work experience are the basic forms of human capital.45 For example, to become a computer programmer, one needs first to learn programming. The human capital of the computer programmer consists of programming knowledge, and this knowledge renders that person productive on the job. Insofar as formal education really increases personal productivity, an unproven but plausible assumption, then those who have human capital make more effective entrepreneurs than those who lack it.44 Human capital improves the productivity of entrepreneurs as well as of their employees. Much evidence shows that among all ethnorracial groups and categories, human capital increases rates of entrepreneurship.46
The impact is easy to illustrate. The average level of education among American business owners is higher than the average level of the feeder population for all ethnocultural and gender categories except Asian high school graduates (Table 4.2). This result indicates that higher educational attainments increase the individual’s likelihood of business ownership. Categories with higher educational levels have higher self-employment rates than categories with lower average educational levels. Moreover, within the population of business owners, employers have slightly higher educational levels than do nonemployers in all categories except black high school graduates (Table 4.2). The difference is about 10% on average. Even among business owners, additional human capital increases the likelihood of owning a bigger business.

The advantages of education are easiest to illustrate for Hispanics, the ethnocultural category with the lowest average educational level. Table 4.2 shows that Hispanic business owners had higher educational attainment than did Hispanics in general. Nearly 30% of Hispanic employers were college graduates compared with only 8.8% of the Hispanic adult population. This was the biggest gap of any ethnocultural category. This educational advantage of the business owners held true for both employers and nonemployers, but the gap was bigger for employers. Nonetheless, despite the big educational gap between Hispanics and Hispanic business owners, the Hispanic business owners had only about three-quarters the educational level of the other four ethnocultural categories. Clearly, this low educational level of the Hispanics helps to explain why Hispanic self-employment rates were low as well as why Hispanics had fewer employer firms than others: Hispanic self-employment rates were reduced by the low educational levels of the Hispanic population. We arrive at a thought experiment. If the Hispanics had had twice as high a proportion of college graduates as they actually did, would Hispanics have generated more entrepreneurs and employer firms? If yes, we must acknowledge that financial capital is not the only class resource of entrepreneurship.

Now, comparing the entrepreneurship of blacks and whites, the locus classicus of this debate, we recognize that, in addition to their advantage in financial capital, the whites had more human capital than the blacks. That is, the average years of education of whites were still somewhat greater than the average among blacks even though blacks were closing this gap. Did this human capital advantage give the whites an additional advantage in entrepreneurship above and beyond the advantages conferred by their superior financial capital? The answer is most likely yes. Like the financial capital advantage of the whites, the human capital advantage of the whites is a class resource that translates into higher rates of entrepreneurship. In fact, when human capital endowments are statistically controlled, the huge differences in self-employment rates that divide whites and blacks are actually reduced by 50%. That is, if blacks had the same average human capital endowments as do whites, the difference between black self-employment rates and white self-employment rates would be only two-thirds as large as it actually is. When combined with the effects of unequal financial capital, the effects of unequal human capital evidently accentuate black-white differences in entrepreneurship.

Although the impact of human capital upon entrepreneurship is unambiguous, the meaning of this relationship requires clarification. Collins complains that economists’ use of human capital “does not capture either the economic advantages, or disadvantages of cultural knowledge and cultural practice in the economy.” The objection has merit because economists treat human capital as though it were just a financial investment. Their justification is straightforward. At least in market economies, human capital costs money. Investment in human capital takes two forms. One is direct costs of instruction, lodging and meals away from home, transportation to classrooms, and so forth. The second is the opportunity cost of being a student. The opportunity cost of being a student means the money a student could have earned had that student held a job instead. Even students who pay no tuition, learning at home from unemployed parents, must pay an opportunity cost for being students, so, in that sense, their education imposes money costs too.

Agreeing that human capital is importantly a class resource, like financial capital, we cannot call it a financial resource. Human capital is importantly

### TABLE 4.2 Educational Attainment of Owners and All Persons by Race and Ethnocultural Category, 1987 (in Percentages)

<table>
<thead>
<tr>
<th></th>
<th>Hispanic (HS&lt;sup&gt;*&lt;/sup&gt;</th>
<th>Hispanic (College&lt;sup&gt;+&lt;/sup&gt;)</th>
<th>Black (HS&lt;sup&gt;*&lt;/sup&gt;)</th>
<th>Black (College&lt;sup&gt;+&lt;/sup&gt;)</th>
<th>Asian&lt;sup&gt;+&lt;/sup&gt; (HS&lt;sup&gt;*&lt;/sup&gt;)</th>
<th>Asian&lt;sup&gt;+&lt;/sup&gt; (College&lt;sup&gt;+&lt;/sup&gt;)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No employers</td>
<td>61.5</td>
<td>20.2</td>
<td>70.8</td>
<td>25.7</td>
<td>80.5</td>
<td>47.2</td>
</tr>
<tr>
<td>With employers</td>
<td>64.5</td>
<td>22.9</td>
<td>69.3</td>
<td>28.6</td>
<td>82.2</td>
<td>51.4</td>
</tr>
<tr>
<td>All persons</td>
<td>49.1</td>
<td>8.8</td>
<td>62.4</td>
<td>11.2</td>
<td>80.4</td>
<td>39.9</td>
</tr>
<tr>
<td>Women</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HS&lt;sup&gt;*&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College&lt;sup&gt;+&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No employers</td>
<td>84.5</td>
<td>34.2</td>
<td>80.8</td>
<td>33.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>With employers</td>
<td>86.0</td>
<td>33.0</td>
<td>82.6</td>
<td>38.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All persons</td>
<td>75.1</td>
<td>17.0</td>
<td>77.2</td>
<td>24.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>*</sup>Includes Pacific Islanders and American Indians.

<sup>+</sup>HS+, completed 4 years of high school or more.

<sup>+</sup>College+, completed 4 years of college or more.

nonfinancial in origin. People’s decision to purchase human capital and their learning capacity if they do purchase it both depend upon class culture much more than upon income. Income has a modest effect upon educational attainment. Comparing educational attainment across income groups, Susan Mayer concludes that “doubling parental income” would raise a poor child’s “expected years of education by about a fifth of a point.” Indeed, Mayer shows that, if we could raise the children of the lowest income quintile into the second lowest income quintile, we would raise their years of education at age 24 by only 2%. If we moved the poorest children into the highest income quintile, we would raise their expected years of education at age 24 by only 10%. Additional evidence derives from research on educational attainment. This research has increasingly contrasted economic and noneconomic explanations, concluding that income does not explain educational attainment. In his study of elementary school children, George Farkas found the white children learned and achieved more in school than did the black children, the usual research result. However, when Farkas statistically controlled for the cognitive level of the children’s parents, the learning differences between white and black children vanished. Black children learned as well as white children if their parents had equivalent cognitive skills. Farkas concluded that the children whose parents demonstrated strong cognitive skills benefited from an informal curriculum at home that paralleled and reinforced the curriculum at school. However, the whites had more such children in these curricula than did the blacks. As a result, the cultural environment of the white homes supported and encouraged classroom attainment more than did the culture of the black homes.

In addition to money, which confers the ability to buy human capital, affluent people possess a class culture that encourages them to want human capital. This class culture furnishes an outlook that broadly supports educational attainment. Pierre Bourdieu calls this outlook a habitus. By habitus, Bourdieu means mental structures “through which we apprehend the world.” In reality, a class culture’s encouragement of education extends to the habitus it provides as well as to financial means. Take Josephine Smith, who recently completed an MBA at Yale. True, Smith paid for her education. In that sense, her degree embodies human capital that Smith purchased. Nonetheless, her prior knowledge of that degree’s economic value in the marketplace, the academic motivation that produced her high grade point averages, her materialistic outlook on life, and her knowledge of and comfort with business careers and ambition are all features of class culture that prepared and conditioned Smith’s enthusiasm for and investment in human capital. Following Pierre Bourdieu, we call the educational sequence that eventuated in Smith’s business degree a class “strategy.” Except for this strategy, known to and practiced by people of her class, Smith might have done something else with her money. Possibly, she would have donated her money to the needy; alternatively, she might have squandered it on drugs, motorcycles, and tattooed boyfriends.

Smith’s money did not invest itself in human capital; Smith made the choice. To that extent, human capital investments reduce to prior class cultures, which must be invoked to explain the investment decision.

### CULTURAL CAPITAL

This observation requires the identification of a third form of capital, cultural capital. Like human capital and financial capital, cultural capital is a class resource in that those of higher class status normally possess it. However, although a class resource, cultural capital is not a material resource and one can have cultural capital without financial capital, or vice versa. The developer of the concept of cultural capital, Pierre Bourdieu, defines it as “competence in a society’s high-status culture.” High-status culture emphasizes art, music, dance, and literature, but it also includes furniture, architecture, cuisine, and fashion. Knowledge of these arts represents capital, Bourdieu maintains, and not just snobbish affectation, because—and to the extent that—this knowledge can be turned to the owner’s financial advantage at multiple points in the owner’s life span. For example, when Josephine Smith wears the right suit, handbag, and shoes to a job interview on Wall Street, she makes a favorable impression and lands the job. Josephine’s mother and peers taught her how to dress, a culturally monitored skill that paid off when she landed a lucrative job.

In Bourdieu’s formulation, people acquire cultural capital in the family and in formal schooling. The home curriculum and the school curriculum partially coincide, but they importantly diverge. The parallel curriculum of the home teaches class knowledge that the school ignores. The parallel curriculum gives children of the affluent a superior endowment in cultural capital. However acquired, at home or in school, cultural capital is converted to income in several ways, of which the principal means is educational certification. Although formal education culminates in diplomas, degrees, and certificates, cultural capital is quite different from human capital, which also emerges from formal education. The difference between human capital and cultural capital resides in how the capital benefits its owner. Human capital increases its owner’s productivity; a competence employers reward with wages. In contrast, cultural capital conveys prestige recognition on the strength of which people get desirable jobs, marriages, and business contacts. Therefore, the same diploma has value as human capital and as cultural capital; the difference depends upon whether we emphasize the real vocational competencies that a diploma represents or the prestige recognition it commands for its owner. Every diploma has both. When a person’s education has bestowed both enhanced productivity and prestige recognition, that person has two forms of capital (human and cultural), both of which can be converted into money. If an education has bestowed only snob value or only enhanced productivity, the graduate has
only one form of capital, not two. Obviously it is better to have both cultural capital and human capital than to have only one or the other, but it is better to have one or the other than neither.

Although Bourdieu analyzed the high culture of the bourgeoisie, calling this cultural capital, he neglected the occupational culture of the bourgeoisie.\(^{57}\) This juncture led George Farkas to complain that the sociologists' cultural capital was an empty “shell game” that ignored competence.\(^{58}\) Culture is a tool kit, complains Farkas, who looks for its provision of “real skills for real production.”\(^{59}\) We agree that cultural tools confer competencies. Bourdieu's narrow concept of cultural capital stresses aesthetic judgment as if entrepreneurs had only to attend art openings and poetry readings.\(^{60}\) This view requires amendment.\(^{61}\) Business owners run the market economy, and to discharge this real responsibility requires real competence. Granted, some well-connected people obtain lucrative jobs on snob appeal alone, but an economy cannot run on snob appeal. It requires real skills for real production. What Brigitte Berger has called “the culture of entrepreneurship” is an occupational culture, not an aesthetic standard.\(^{62}\) The occupational culture of the bourgeoisie is the skills, knowledge, attitudes, and values that bourgeoisies need to run the market economy. Their occupational culture transmits and maintains the practical knowledge of how to start and to run business firms.\(^{63}\) This occupational culture includes relevant and supportive values, attitudes, knowledge, and skills transmitted in the course of socialization at home as well as in school. Bourgeois occupational culture means cultural traits (values, skills, attitudes, knowledge) characteristic of bourgeoisies around the world, and that, furthermore, distinguish bourgeois from nonbourgeois coethnics while linking bourgeois coethnics to bourgeois noncoethnics elsewhere. An established bourgeoisie equips its youth with appropriate class resources.\(^{64}\) Having them, the youth prosper in and reproduce a market economy. Entrepreneurship is the occupational culture of bourgeoisies.

Evidence for this conclusion appears in Table 4.3. Derived from the 1987 census of business owners, this table shows the percentage of current business owners whose “close relative” owns or had owned a business.\(^{65}\) Of those whose close relative owned a business, the table also shows the percentage who had themselves earlier worked in that close relative's business.\(^{66}\) When a close relative owns a business, a young person may acquire an informal education in entrepreneurship without actually working in the business.\(^{67}\) This informal education includes skills and knowledge as well as attitudes and values. For example, a child might acquire from an entrepreneur aunt or uncle the value of vocational independence. Additionally, a child might acquire from an entrepreneur relative a role model. In this manner, just having entrepreneur kinfolk conveys occupationally relevant cultural capital.

When, additionally, a young person works in a relative's business, the young person acquires exposure to the occupational culture of entrepreneurship. Of course, any young person working in this business would obtain some human capital from the work experience. Nonetheless, when working in a relative's business, a young person acquires cultural capital as well as human capital. First, getting the job is much easier when one is a close relative of the owner, so the vocational education is much more available to kin than to nonkin. Second, a child identifies more with a relative entrepreneur than with a nonrelative entrepreneur. A relative entrepreneur is "Uncle Harry." A nonrelative entrepreneur is "the boss." Finally, entrepreneurs identify with kinfolk too, and offer them access to business skills, techniques, and outlook above and beyond the narrow requirements of their job.

For these reasons, having a close relative who owned a business and having worked in that relative's business are two indicators of childhood access to the culture of entrepreneurship. Table 4.2 shows that of black and Hispanic business owners, about 30% had had close relatives who were also business owners. Since the self-employment rate among blacks and Hispanics was between 3 and 6% a generation earlier, the table shows that current black or Hispanic business owners were 10 times more likely to have had a close relative who was a business owner than were blacks and Hispanics in general. A comparable inference can be drawn about Asians except that, among Asians, the previous generation's self-employment rate was higher. Among women and white men, the percentage of business owners who reported a self-employed relative is appreciably higher than among the racial minorities. This elevation is unsurprising because the actual rate of self-employment among women and whites was about 8%, more than twice as high as the self-employment rate among the racial minorities. Therefore, women and white men actually had a higher probability of having a self-employed relative than did blacks and Hispanics.

Women business owners and white male business owners were about six times more likely to have had a close relative who was self-employed than were women in general or white men in general. This disproportion indicates the impetus

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Table 4.3 Cultural Capital of Business Owners by Race and Gender for the United States, 1987 (in Percentages)

<table>
<thead>
<tr>
<th></th>
<th>Owner's close relative owned a business</th>
<th>Owner worked for self-employed relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hispanic</td>
<td>30.7</td>
<td>40.6</td>
</tr>
<tr>
<td>Black</td>
<td>27.8</td>
<td>37.6</td>
</tr>
<tr>
<td>Asians(^{a})</td>
<td>35.3</td>
<td>38.8</td>
</tr>
<tr>
<td>Women-Owned</td>
<td>47.0</td>
<td>37.3</td>
</tr>
<tr>
<td>Nonminority male</td>
<td>48.0</td>
<td>50.7</td>
</tr>
</tbody>
</table>

\(^{a}\)Includes Pacific Islanders and American Indians.

toward self-employment that the vocational culture of entrepreneurship conveyed to them. That is, if a woman or a white man had close relatives who were business owners, that woman or white man had a six times better chance of becoming self-employed than did women or white men in general. By implication, if blacks and Hispanics had had the same self-employment rates in 1947 as did white men and all women, these two minorities would have enjoyed higher self-employment rates in 1987 than they actually exhibited. One reason the self-employment rates of the contemporary minorities fell below those of whites was apparently the minorities’ prior lack of access to an equivalently large pool of self-employed relatives from whom they could informally acquire the occupational culture of business owners.8 If these conclusions are justified, then even human capital and financial capital do not exhaust the class-derived advantages in entrepreneurship that whites had over minorities.

Results are very similar when we turn to the issue of what proportion of owners actually worked for their own self-employed close relatives. Such work conveyed additional business education. Of the minority and women business owners who had reported self-employed close relatives, about 35% had actually worked for those relatives. Among nonminority male owners, who had the highest self-employment rate, about 51% had worked for their self-employed relatives. Clearly the opportunity to work for a relative depends in part on the size of that relative’s business. The more employees a close relative has, the more opportunities his or her business affords for employment of kinfolk. Size of business might explain why the white men had a higher employment rate than did the minorities, whose relatives owned smaller firms on average than did the relatives of the white men. A more likely explanation is gender. Women and men did not differ in the percentage who had self-employed relatives, but white men were about one-third more likely than women to have worked for those relatives. Young men were more likely than young women to seek and to obtain informal vocational training in business and thus acquire more fully the occupational culture of their self-employed relatives.

SOCIAL CAPITAL

Social capital is a fourth capital resource.89 Ostrom defines social capital as “the arrangement of human resources to improve flows of future income.”70 We distinguish class-derived social capital from ethnic-derived social capital. Class-derived social capital is ownership of class-derived social relationships that facilitate entrepreneurship.71 Social capital’s simplest form is a social network of strong and weak social ties.72 The contribution of social networks to entrepreneurship is the most important research discovery in the last generation. Entrepreneurs make extensive and important use of social networks when starting and running a business.73 Unlike financial capital, which is exhausted by use, social capital increases with use.74 Unlike cultural capital, which a learner absorbs, social capital remains an external resource. Social capital is inherited or acquired. Inherited social capital conveys a class-derived advantage in entrepreneurship when the inheritor matures into advantageous social relationships as a result of the entrepreneur status of parents. Being related to an entrepreneur by blood or marriage most facilitates one’s own entrepreneurship when one can take over a parent’s business relationships and reputation (Table 4.2). In the case of Sam Walton, founder of Wal-Mart, the youthful entrepreneur borrowed start-up funds from his wife’s wealthy father.75 Everyone does not have a wealthy father-in-law to finance his or her start-up. In the case of Donald Trump, New York real estate mogul, young Trump inherited his father’s business connections and established reputation in the construction and real estate industry as well as his father’s great wealth.76 Of business relationships that belonged to Donald Trump’s father, some became accessible to young Trump too, and these inherited relationships conferred economic advantage upon the youthful Trump at an early stage of his entrepreneurial career.

Acquired social capital represents a class resource when it reflects the owner’s class status rather than the owner’s ethnocultural identity.77 Even those most endowed with inherited social capital acquire their own class-defined social capital as their work career proceeds.78 As Donald Trump’s career unfolded, he utilized social capital that he had acquired in the Wharton School of Finance in addition to social capital that he inherited. Alumni ties are common sources of acquired social capital because they reflect the graduate’s class-linked acquired network. Naturally, alumni ties also reflect a graduate’s ability to pay for higher education plus her or his cultural capital plus the social capital of parents who may have used influence to arrange a dullard’s university admission. In that sense, current alumni connections reduce to the class background of an entrepreneur’s parents. However, even entrepreneurs who inherit class resources have to perform work in order to renew social capital resources for their own lifetime use. The work of creating their acquired social capital from opportunities to form it and of recreating and renewing their inherited social capital is essential because inherited social capital does not last a lifetime without renewal, and acquired social capital requires effort to develop and maintain.79

The entrepreneur’s social capital resource resembles the Chinese concept of guanxi.80 Guanxi means literally a social relationship or social connection.81 Indeed, this ancient Chinese economic idea, part of the folk culture of China, anticipated social science by a millennium. Guanxi is the ability to build useful social relationships, to stockpile these relationships, and then to call upon them for business help.82 Guanxi is by no means limited to entrepreneurs, but it is certainly important in Chinese business. Guanxi is not the same as corruption. Corruption occurs when an entrepreneur pays for improper or illegal help. For example, if an entrepreneur bribes an inspector to overlook fire hazards on her premises, she has corrupted the official.83 The corruption conveys a business advantage because competitors will have to remedy fire hazards, paying whatever it costs and adding
the cost to the price of their commodity. This business advantage benefits bribers to the disadvantage of nonbribers. Corruption is a naked quid pro quo.  

In contrast, guanxi involves prior targeting of potentially useful individuals, who are cultivated in the hope of developing a genuine personal relationship. Naturally, cultivation involves the normal exchange of favors and gifts that accompany real friendships, but this exchange is mutual. For example, if an entrepreneur makes a friend of the fire department's inspector, anticipating that her help may someday be needed, then she has built social capital or guanxi with that inspector. Should a fire inspection turn up hazards on the entrepreneur's business premises, her inspector friend will not require a bribe to ignore or minimize them.

The cultural capital of an entrepreneur includes the knowledge of what social capital is, how to obtain it, and how to use it. Every American does not understand social capital equally well. Among those who understand it best, entrepreneurs are overrepresented. This advantage arises from the entrepreneurs' repertoire of social capital. But thanks also to social science's discovery of the advantageousness of networking among entrepreneurs, the simplest utilization of social capital, some business schools now teach networking to entrepreneurship students. In the United States strategic networking is a restricted skill linked to entrepreneurship. In China, by way of contrast, skill in strategic networking is more universal. Therefore, it is an ethnic resource. Chinese entrepreneurs' wide familiarity with guanxi certainly reflects Chinese culture, not just class culture, and the Chinese are more knowledgeable than Americans about guanxi. To this extent, Chinese entrepreneurs' social capital (real guanxi) is a product of Chinese cultural capital (knowledge of how to make guanxi). Nonetheless, we distinguish social capital and cultural capital on the ground that knowledge of how to obtain and use a resource and the actual possession of that resource are different matters. One can know how to use an ax to cut wood but have neither wood nor ax. In the same sense, cultural capital provides the entrepreneur with knowledge of social capital, but that entrepreneur's actual stock of social capital, and her skillful disposition of it, is a separate resource.

In the same sense, we argue, following James Coleman, that social capital creates human capital, which economists treat as a strictly financial resource. Social capital creates human capital by strengthening the ability of parents to monitor and control their children's study habits and friendships. This ability increases children's success in school and increases graduation rates. To the extent that this practice works, we can reduce an entrepreneur's human capital to her or his parents' social capital. That is, parents' social capital becomes children's human capital, which becomes children's self-employment, which becomes children's prosperity. That reduction would eliminate entrepreneur human capital as a separate and distinct class resource, wholly subsuming it under social capital. This view is extreme. Again, we choose to deal with real resources in hand rather than reducing them to their often complex antecedents. However engendered, human capital is a separate resource from social capital, especially if we stress the entrepreneur's armament rather than the armament's manufacture.

DEFECTIVE RESOURCE CLUSTERS

We have identified four class resources that encourage entrepreneurship. All are forms of capital. These are financial capital, cultural human capital, and social capital. A bourgeoisie usually enjoys all four forms simultaneously, but occasional separations occur. When the separations occur, a bourgeoisie does not have all the usual class resources. These defective resource clusters illustrate the importance of distinguishing the separate forms of class capital that bourgeoises usually assemble. For example, Portes reported that the earliest pre--Mariel Cuban refugees in Miami were disproportionately of bourgeois origin. Their parents had been wealthy entrepreneurs and business managers in Cuba, as were they themselves. However, after the Cuban Revolution of 1958, the Cuban refugees arrived penniless in Miami. Communists had seized their property and money. The refugees escaped with their lives. Nonetheless, the impoverished Cuban refugees in Miami reinvented themselves in business. Within a generation, the Cuban refugee bourgeoisie had reconstituted itself as a property--owning class and had rebuilt its wealth.

How was this reconstruction possible? If financial capital were the only resource of entrepreneurship, as nineteenth-century social scientists believed, then the Cubans in Miami created an ethnic economy out of nothing. Ex nihilo nihil fit. Only a miracle creates something out of nothing. However, if we recognize that, although stripped of their property and their wealth, the Cuban refugees in Miami retained their social capital, their human capital, and their cultural capital, we can appreciate that the penniless Cuban refugees were not without class resources after all. These class resources permitted them to regain their property and their wealth within a generation, but the achievement, impressive as it was, was no miracle. Rather, the Cubans' achievement illustrates the basic point of this chapter: class resources are productive resources. Human capital, social capital, and cultural capital contribute to entrepreneurship. Inherited wealth is not a sufficient explanation of entrepreneurship.

These considerations also explain why the penniless Haitian refugees in Miami have not been so successful in business as the penniless Cuban refugees in creating a prosperous ethnic enclave economy. True, both Cuban refugees and Haitian refugees were penniless upon arrival, but there the similarity ends. The working-class Haitian refugees did not have the class resources of the Cubans. Specifically, the working-class Haitians lacked the class-derived social capital, cultural capital, and human capital that the Cuban refugees already had when they landed. For this reason, the Haitians were actually poorer than the Cubans even
though their level of material deprivation was initially the same. We do not imply that the Haitians cannot build these class resources. In fact, Haitians are doing that. However, building class resources takes time, even generations, and courageous as they were, the Haitians had to start with the resources they had on hand.

Similarly, if we ask what happened to grand prize lottery winners or retired boxing champions, we usually learn that they squandered their wealth and, within a decade, were back in the working class.53 Bacuan's bustling inators were very aware of the problem, but they could not explain it. In reality, the explanation is easy. These individuals of working-class origin came into great wealth without also acquiring the knowledge of how to husband it. Benjamin Franklin once wrote that "a fool and his money are soon parted." Franklin's caustic judgment is too harsh because he deplored as fools those who lack class-derived social capital, cultural capital, and human capital, usually for no fault of their own. Nonetheless, implicit in Franklin's epigram is a valid distinction between having money and knowing how to use money. The former is a material resource; the latter is a culture resource. Those who gain money but do not understand its use lose their money. Boxing champions have this problem.54 We submit that Franklin's folk wisdom expands into the four class resources, each a form of capital, and that many entrepreneurs acquire these forms of capital through their class connections.

CLASS EXPLANATIONS AND CLASS THEORY

If one attempts to explain ethnic economies strictly on the basis of class status, then one utilizes a class explanation since all variables in the explanation are indicators of class status. Neoclassical economists such as Timothy Bates champion a class explanation of ethnic ownership economies.55 Indeed, in the preceding comparison of Cubans and Haitians, we offered a class explanation of their ethnic economies, alleging that the Cubans built a bigger and more successful ethnic economy because of their superior class resources. Similarly, when explaining how low average education level retards Hispanic business ownership, we explained the Hispanics' small ethnic ownership economy by reference to their low class resources. When, going beyond a class explanation of a case, one asserts that class resources are the only resources of entrepreneurship, then one has produced a class theory of entrepreneurship. The difference between a class explanation and a class theory is their scope. A class explanation addresses selected cases, explaining them on an ad hoc basis. A class theory frames the entire debate, laying down generalizations that purportedly cover all the cases.

A strict class theory claims that interethnic differences in ethnic ownership economies result from unequal access to class resources. Class theory reduces ethnic difference to class difference. Class theory is certainly the old-time

religion, and it still has defenders among Marxist and neoclassical economists alike. But how successful is class theory from a scientific point of view? The answer depends, first of all, upon how broadly one throws the class net. Class theory works best when class is broadly defined to include all four class resources. In that case, a class theory utilizes financial capital, cultural capital, social capital, and human capital. All figures in explanations. Class theories that utilize some but not all of these class resources in their explanation will be less successful than those that use all the variables. Karl Marx believed that "circulation of commodities" was the only form of capital, and he meant physical commodities.56 Entrepreneurs were just the inheritors of money and property, their only economic resources. Marx's was a strict, if limited, class theory of entrepreneurship.

Later theorists expanded class theory to include human capital as well. Foremost is the economist Timothy Bates, who proposes a class theory of ethnic entrepreneurship that includes only financial capital and human capital.57 That is, Bates claims that human capital and financial capital are the only class resources, and the only ones that ever affect intergroup disparities in size of ethnic ownership economies.58 This theory encounters predictable problems. One is the ambiguous character of human capital. Like most economists, Bates treats human capital as if it were a producer's commodity purchased in expectation of a future money return. Although human capital costs money, and its purchasers expect a money return, ability to pay does not fully explain anyone's decision to purchase human capital. The other determinants of human capital are cultural capital and social capital, both of which are nonfinancial.59 Putting it together, bourgeoisie usually have the money, the cultural capital, and the social capital with which to obtain human capital for their youth. Once obtained, this human capital becomes an advantage in entrepreneurship and employment just as Bates suggests, but the source of the human capital is importantly the sociocultural side of class. Therefore, Bates's version of human capital clandestinely imports class culture and class-derived social capital into what purports to be a purely financial explanation.

Returning to Josephine Smith, whose MBA at Yale University we previously celebrated, Table 4.4 shows in abbreviated and schematic terms the genealogy of her human capital. Smith's social capital played a role in that, knowing Yale alumni, Smith acquired an informed and favorable view of Yale. This information caused Smith to apply, an essential step on her road toward graduation. Additionally, Smith's cultural capital contributed to her access to a Yale MBA. Thanks to

<table>
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<th>TABLE 4.4 Genealogy of Human Capital</th>
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<tr>
<td>Social capital</td>
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<tr>
<td>Knows alumni</td>
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<tr>
<td>Cultural capital</td>
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<tr>
<td>Good student</td>
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<tr>
<td>Admitted to Yale</td>
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<tr>
<td>Financial capital</td>
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<tr>
<td>Rich</td>
</tr>
<tr>
<td>Pays tuition</td>
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<tr>
<td>Obtains human capital</td>
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CRITIQUE OF CLASS THEORY

That class theory is best that includes all class variables, and Bates’s version includes financial capital and human capital, but it does not include class-derived cultural capital and class-derived social capital. Recognizing the shortfall, other economists are seeking to expand class explanations by expanding human capital. George Bojás tries to bring ethnic resources within an expanded definition of human capital. Gary Becker tries to bring cultural capital inside human capital. Jumping ship as they have, other economists have left Bates behind, the last exponent of an obsolete theory. In this chapter, we have shown that social capital and cultural capital expand the scope of what class can explain about intergroup differences in entrepreneurship. Moreover, we have shown that human capital, though often treated as a commodity purchase, actually includes indispensable contributions of cultural capital and human capital, a conclusion that even Gary S. Becker acknowledges. That is, people enjoy human capital today because they earlier enjoyed social capital and cultural capital. Money alone does not explain human capital acquisition. To that extent, economic definitions of human capital illegitimately smuggle the effects of social capital and cultural capital into their analysis without crediting the sources. In general, the effects of class on entrepreneurship considerably exceed what wealth alone can explain.

Although we have expanded class theory beyond the conventional boundary, enriching it in the process, even expanded class theory still offers an inadequate theory of entrepreneurship and even, we should add, of income attainment. In fact, human capital only explains about a third of the income gap between men and women and between blacks and whites. When it comes to both entrepreneurship and income attainment, human capital just does not explain everything. Therefore, class theory, even at its best, much less in the anemic Bates version, offers an incomplete explanation of interethnic differences in entrepreneurship. First, class theory implies that ethnic groups and ethnic categories must already have class resources before they can build an ownership economy. More accurately, it implies that ethnic groups can build ownership economies only in strict proportion to the class resources they already possess. If it were so, only those could become entrepreneurs who already were middle class. If groups must already have class resources in order to develop ethnic economies, then entrepreneurship is impossible for poor people, a conclusion Timothy Bates enthusiastically endorses. Prepared to acknowledge that economic mobility through entrepreneurship is difficult for poor people, and always has been, we deny that it is impossible, especially if they have supportive ethnic resources. Moreover, if we include the illegal sector and the informal sector along with the formal sector, expanding the referent ecology, entrepreneurship has been a classic route out of poverty, and it still functions that way. Zelizer points out, for example, that in 1900, New York City’s guardians of the poor regarded poor Italian immigrants as “unintelligent” in their use of money. Ten decades later, Italians have moved
into middle-class status, importantly on the basis of their entrepreneurship, and Elaine Gazzarrelli is the country's foremost stock market expert. In exactly this sense, America's historical experience refutes a class-only theory of social mobility through entrepreneurship.

Second, and more basically, class theory ignores ethnic resources, the subject of the next chapter. Ethnic resources importantly contribute to entrepreneurship independent of class. A theory that excludes ethnic resources cannot be complete.\textsuperscript{115} Ethnic resources are sociocultural and demographic features of the whole group that coethnic entrepreneurs actively utilize in business or from which their business passively benefits.\textsuperscript{116} Ethnic resources characterize a whole group, not just its isolated members and not just bourgeois. For example, writing of Jews in western Pennsylvania before World War II, Morawka found that "a desire for self-employment" was virtually universal.\textsuperscript{117} And in the third of the cases, this motive characterized families that had been self-employed in Europe. In this third of cases, we could declare the aspiration for entrepreneurship a class resource of the Jewish bourgeoisie. But in the two-thirds of cases, the aspiration for self-employment characterized Jews who had not been self-employed in Europe and who were not then self-employed. In effect, the whole Jewish community aspired to self-employment, not just the Jewish bourgeoisie. Mavrotas makes the same claim for Greek Americans, arguing that their nearly universal "desire to become self-employed" is "clearly a function of the Greek's traditional value of independence."\textsuperscript{118} In both these cases, the aspiration for entrepreneurship was an ethnocultural resource, not just a class resource.\textsuperscript{119}

Conversely, if Mr. Kim, a Korean entrepreneur in Los Angeles, enjoys a resource that his working-class coethnics do not, Kim's resource is not ethnic. If Mr. Kim's working-class coethnics work little and save little, but Mr. Kim works and saves much, then one cannot explain Mr. Kim's saving by reference to his ethnocultural resources. After all, Kim's behavior would be unique among coethnics, whereas those who utilize ethnocultural resources are typical of their coethnics in so doing. Typical ethnic resources include kinship and marriage systems, relationships of trust, ethnic-derived social capital, cultural assumptions, religion, native language fluency, a middleman heritage, entrepreneurial values and attitudes, rotating credit associations, relative satisfaction arising from nonaccommodation to prevailing labor and living standards, reactive solidarities, multiplex social networks, employer paternalism, an ideology of ethnic solidarity, and a generous pool of underemployed and disadvantaged coethnic workers.\textsuperscript{120} If one observes, for example, that Chinese work long hours under unsafe conditions, trust one another more than outsiders, save more than others, express satisfaction with low wages, help one another to acquire business skills and information, follow one another into the same trades, combine easily to restrain trade, utilize rotating credit associations, or deploy multiplex social networks to economic advantage, one is calling attention to the manner in which ethnic resources promote entrepreneurship of all the Chinese, not just the Chinese bourgeoisie.\textsuperscript{121} As the constituent resources are shared, ethnic entrepreneurship acquires a communitarian rather than individualist character.\textsuperscript{122}

Martin Marger proposes that Canadian business immigrants operated strictly on the basis of their wealth and human capital, ignoring the immigrant communities to which they titularly belonged.\textsuperscript{123} For capital, they went to banks; for labor, they accessed the general labor market; and for information, they hired experts. Business immigrants applied directly to the Canadian government for priority immigration, to gain which they were required to have abundant money, business experience, and plans to invest in Canada. Marger proposes that abundant money and business skills permitted the business immigrants to forego reliance on ethnic social capital. True, Bruecker and Preissendorfer did not find any substitution of ethnic for missing class resources, but let us suppose that Marger is right about all the facts.\textsuperscript{124} His theoretical conclusion ignored cultural capital that fed into the entrepreneurship of these elite immigrants through kinship, a cultural system.\textsuperscript{125} Kinship is cultural. Kinship explains why class resources never affect ethnic ownership economies without ethnocultural resources also being present.

To ignore ethnic resources, focusing exclusively on class variables, is to take as one's model of the general what is, at best, an extreme and uncommon situation. Indeed, no one has ever adduced any ethnic ownership economy that fits a class-only theory.\textsuperscript{126} All the ethnic ownership economies in evidence are mixed cases. All use class and nonclass resources. Even the contrast of Haitians and Cubans in Miami, which we couched in class terms for illustration, has distinct ethnic content when one examines the cases more closely.\textsuperscript{127} Since no class-only cases are in evidence despite much searching, we conclude that all ethnic ownership economies depend upon mixed class and ethnic resources albeit with different preponderance. Some are class-preponderant; others are ethnic-preponderant. These mixtures are types 3, 4, and 5 in Table 4.5. These three types are the only realistic types; types 1 and 5 never occur in real-world ethnic ownership economies. Ethnic resources always combine with class resources in ethnic ownership economies.\textsuperscript{128} Theoretical explanation must build upon the cases in evidence, which are types 3, 4, and 5.

Although mixed together within the same group, ethnic and class resources need not be of equal importance. In some mixed cases, class resources predomi-

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<th>Table 4.5 Ethnic and Class Resources of Entrepreneurship</th>
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<td>Ethnic</td>
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<tr>
<td>1. Class-only</td>
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<tr>
<td>2. Ethnic-only</td>
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<tr>
<td>3. Mixed</td>
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<tr>
<td>4. Mixed: class predominant</td>
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<td>5. Mixed: ethnic predominant</td>
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nate; in other mixed cases, ethnic resources predominate; in still others, ethnic and class resources are of equal importance. The important debate is no longer whether class and ethnic resources combine, but how they combine and in what proportions. In an important discovery, In-Jin Yoon found that ethnic resources were more important than class resources in the start-up phase of Korean business firms in Chicago. Older Korean firms relied more upon class resources than did younger firms, but the older firms' very survival had created the class resources upon which they later came to rely. The life cycle of the firm determined the relative importance of ethnic and class resources. Similarly, ethnic resources are more important in the entrepreneurship of impoverished groups than in the entrepreneurship of the affluent, and as formerly impoverished groups ascend the social hierarchy, in partial response to the success of their ethnic economy, their entrepreneurship relies more upon class resources.

**INTRODUCTION**

The last chapter discussed how class provides group members with financial, human, cultural, and social capital that permit them to produce ethnic economies or, in other words, to create small businesses and control job opportunities in existing firms or the public sector. The chapter concluded that all ethnic economies depend upon mixed class and ethnic resources. This chapter examines ethnic resources and their role in shaping ethnic economies. Ethnic resources are features of a group that coethnics utilize in economic life or from which they derive economic benefit. They include identifiable skills, organizational techniques, reactive solidarity, sojourning orientation, and other characteristics based in group tradition and experience. Conceptually, ethnic resources are distinguished from class resources—those cultural and material assets, outlooks, and skills possessed by all persons of a common class position, regardless of their ethnic background.

Neoclassical economists and Marxists tend to downplay ethnic resources, regarding class as the only factor that determines economic relationships. However, this chapter argues that ethnic resources, in conjunction with class resources, contribute financial, human, cultural, and social capital to members of ethnic groups in such a way as to facilitate their building ethnic economies.
social welfare, education, media, cultural activities, religious institutions, neighborhood control, political leadership, and other benefits. Such benefits are vital bases of ethnic life and can be seen as helping many more persons than the number who find paying employment within the ethnic economy. In fact, many of those directly involved in both producing and consuming benefits of ethnic communities, such as children, homemakers, the elderly, the sick, recent arrivals, and the unemployed are not formally employed at all.

In a capitalist society, such as that of the United States, ethnic business owners and professionals have traditionally maintained the greatest influence in ethnic communities. However, workers employed in ethnic niches may also have important links to ethnic economies. Through involvement in unions, formal associations, and informal networks, such workers contribute significantly to ethnic communal life through their support of self-help activities and political movements.

In conclusion, we believe that while the benefits provided by ethnic economies to their communities cannot always be counted in dollars and cents, such benefits are nevertheless of great importance and must be considered when evaluating the impact of ethnic economies on social life.

Disadvantage is the oldest explanation of superior entrepreneurship. This idea has played a serious role in the history of sociology. Weber maintained that the religious ethic of sectarian Protestants encouraged the universalistic business behavior characteristic of true bourgeois capitalizm. But even Weber acknowledged that Protestant sectarians also selected entrepreneurship because tests of religious conformity excluded them from the civil service and the armed forces. This exclusion amounted to a labor force disadvantage arising from religious discrimination. Subjected to religious discrimination, Protestant sectarians turned to entrepreneurship. Therefore, Weber thought that labor force disadvantage supplemented the religious affinity of sectarian Protestantism for entrepreneurship.

Disputing Weber in a historic debate, Werner Sombart returned to the problem of capitalism's origin, attributing it to Jews, not Protestants. Sombart stressed the rationalism of the Jews as a cultural resource that had fitted them for entrepreneurship. However, Sombart also mentioned the Jews' exclusion from medieval trade guilds, membership in which was open only to Christians. In consequence of this disadvantage, Sombart claimed, Jews were compelled to start their own firms and to operate hypercompetitively, thereby encouraging market capitalism's ultimate success. Thus, like Weber, Sombart split his explanation of entrepreneurship into a component of religious affinity and a component of labor force
disadvantage born of religious discrimination. Both Weber and Sombart stressed the contribution of religious affinity to entrepreneurship, but both also mentioned the contribution of labor force disadvantage.

In the recent revival of interest in immigrant and ethnic entrepreneurship, the classic formula (disadvantage + affinities) at first persisted. Cultural influences initially received the most emphasis, but labor market disadvantage received secondary recognition. Light stressed the "cultural repertoires" that influenced minority entrepreneurship in the United States before the World War II. But he also declared: "Chinese business firms "monuments to the discrimination that had created them." In a later publication that represented an important maturation of this literature, Light formally distinguished disadvantage explanations from cultural ones, and pointed out the inadequacy of purely cultural explanations.

In the 1980s, cultural explanations went out of fashion in social science. Researchers stressed disadvantage to the point that this idea dominated the discourse, often to the exclusion of affinities. This position revised classical theory. Unlike Weber and Sombart, both of whom understood disadvantage explanations to complement affinities, the main explanation, researchers during the 1980s treated disadvantage as a way to avoid having to examine affinities at all. Indeed, Jones, McKoy, and Barrett declared it a "form of racist discrimination" even to discuss ethnocultural affinities in entrepreneurship when discrimination, a labor force disadvantage, also compels people to chance entrepreneurship. Other less extreme, writers simply ignore affinities, advancing disadvantage as the whole explanation for high rates of entrepreneurship. Discussing entrepreneurial Pakistanis and East Indians in Britain, Aldrich et al. declared that "because of natives whites' prejudice and hostility" Asians in Britain must "seek employment below their skill level or else create their own employment opportunity by forming a small business." Ladbury found that Turkish Cypriots in London opened small businesses because "that was all they could get." Min found that more than 90% of Korean entrepreneurs mentioned disadvantage as a major reason for their self-employment, and he assigned first importance to this cause. In Min's opinion, "disadvantage in the American job market" was a principal cause of Korean entrepreneurship in Atlanta. Similarly, Lubin's comparative study of Soviet immigrants in the United States and Israel also stressed disadvantage, not cultural repertoires. In her opinion, the chief motivation for entrepreneurship among the immigrants arose from "lack of other employment options."

Phizacklea declared entrepreneurship an "escape route" for minority men confined to "dead-end manual jobs by racism and racial discrimination." Except for racism, these men would have obtained better jobs for which they were objectively qualified. Therefore, Phizacklea viewed their entrepreneurship "as a form of disguised unemployment." Blashke and Ersin also turned to disadvantage in their account of Turkish entrepreneurship in West Berlin, concluding that "unemployment or the threat of unemployment" was the principal source of

Turkish entrepreneurship. "Other than hard-to-come-by dependent employment, Turkish nationals are only left with one option for economic survival—that is, starting self-employed businesses."

The business cycle also offers indirect support for disadvantage theory. The business cycle literature has commonly reported a countercyclical relationship between aggregate unemployment and self-employment such that self-employment rises in periods of increased unemployment and declines with the return of full employment. One can also count upon the media to make this wise point whenever unemployment increases. True, Becker found the evidence mixed in his review of existing literature. However, his own time series statistical data, 1948–1982, did support the countercyclical hypothesis in the nonagricultural sector. Also utilizing time series data, Steinmetz and Wright found no relationship between unemployment and self-employment until the unemployment rate was interacted with a time variable. When interacted, both the unemployment rate and the interaction term became significant predictors of self-employment rates.

THEORIES OF DISADVANTAGE

Summarizing this one-dimensional, contemporary view, we dub it the simple disadvantage hypothesis. The simple disadvantage hypothesis expects disadvantage in the labor market to encourage self-employment independent of the resources of those disadvantaged, jettisoning the classic formula for entrepreneurship (disadvantage + affinities), simple disadvantage became the baseline from which modern research proceeded. However, as simple disadvantage arguments proliferated, those offering them began to offer variations on the simple disadvantage hypothesis (a sign of theoretical maturation) that actually returned research to the classical formula.

Confronting the evidence, simple disadvantage theory encountered problems of uneven fit. Several researchers reported that simple disadvantage did not fit their data at all. Comparing Chinese and African Americans, Fairlie and Meyer rejected disadvantage theory on the grounds that "self-employment rates are higher among more advantaged ethno-racial groups, contradicting the disadvantage theory."

Other researchers found that disadvantage did not have identical effects upon workers at all socioeconomic levels. Reviewing disadvantage research, Johnson found data sparse and support only partial. According to Johnson, "non-manual workers" were more likely to undertake self-employment in response to unemployment than were manual workers. Among manual workers, Johnson found that the unskilled were "less likely to set up than skilled workers." Thus, unemployment's effects upon self-employment depended upon the skills of the unemployed, a resource constraint. Similarly, Razin and Langlois found that disadvantaged access to salaried jobs only increased self-employment among Canadian minorities when disadvantage was connected to strong resources.
Haber examined the relationship between unemployment and self-employment in the period 1979-1983, a recession. In this period, self-employment grew by 6.9%, whereas wage and salary employment increased only 1.3%. Haber also found that the greatest growth of self-employment occurred among employed workers who opened a side business. Haber supposed that, when their hours were reduced during the recession, some wage and salary workers opened a side business to supplement their earnings from paid employment. Therefore, the effects of unemployment on self-employment were much less than those of under-employment. Haber supposed that the underemployed had more resources than did the unemployed; hence, they could more easily set up on their own account.

Studying the resurgence of self-employment in Europe, Keeble and Weaver found results similar to those of Haber. Originally, they endorsed the "recession push" explanation they found in the existing literature. According to this explanation, unemployment, fear of unemployment, and blocked promotion opportunities compelled European workers to open their own business firms. Therefore, self-employment rates increased in Europe as economic conditions deteriorated. However, Keeble and Weaver found that the occupational structure of localities influenced the extent to which local unemployment promoted self-employment. Managerial workers and others possessing higher educational qualifications were much more likely to undertake self-employment in response to unemployment or underemployment. Therefore, in localities with many managerial workers, unemployment and underemployment occasioned a greater increase in self-employment than in other localities.

In his study of Vietnamese and Soviet Jewish immigrants in San Francisco, Gold found "little evidence to indicate that small business is a direct alternative to unemployment." In Gold's opinion, the unemployed had motive for self-employment all right, but they typically lacked the resources to succeed in it. Unemployed immigrants who tried self-employment usually failed. More commonly, the foreign born undertook self-employment because of "the low quality" of the jobs they could obtain, a situation of underemployment, not unemployment. When starting up their own businesses, the underemployed had access to the slimmer resources afforded by the disagreeable jobs they still held. The unemployed had no resources. Hence, the underemployed more commonly succeeded in developing viable business firms than did the unemployed.

Implicit in this literature we find a sophisticated version of disadvantage theory that transcends the classical view while incorporating all of its explanatory power. We call this implicit theory the resource-constraint variant of the disadvantage theory. The resource-constraint variant supposes that even the disadvantaged require resources to undertake and/or survive in self-employment. The resource-constraint formula for entrepreneurship is disadvantage + resources. On this view, disadvantage alone is insufficient to create entrepreneurs in the formal sector. The resource-constraint variant resembles the classical formula of disadvantage + affinities. The difference is the substitution of resources for affinities in the formula. Affinities must be ethnocultural in the hard sense. That is, they must belong to historic systems of cultural meaning. The Protestant work ethic is an affinity in that sense. Resources include ethnocultural affinities, but they also include class resources as well as ethnocultural resources (such as social capital), which are not reducible to historic systems of cultural meaning. Resources is broader than affinities and represents, for this reason, a theoretical improvement that broadens the scope of classical theory.

Although they offer alternative versions of how disadvantage causes entrepreneurship, the resource-constraint and simple disadvantage theories need not exclude one another. Conceivably, each fits different situations. Confronting labor force disadvantage, those with no resources turn to self-employment in the informal economy. A typical firm in the informal economy requires next to no resources. For example, fruit vendors at Los Angeles freeway entrances are self-employed, but their informal enterprise did not require extensive resources of money, skill, and knowledge. Anyone could do it. On the other hand, when people with resources confront disadvantage, they mobilize those resources to produce a bona fide business firm with premises, telephone, regular hours, and taxes to pay. A grocery store owner or dry cleaner requires resources that those merely disadvantaged simply lack. Lacking resources, they could not have responded to disadvantage by starting this firm.

TYPES OF DISADVANTAGE

Taking account of the difference between the resource-constraint variant and simple disadvantage theory, we also distinguish two types of disadvantage that the existing literature conflates. These types we call resource disadvantage and labor market disadvantage. Groups experience resource disadvantage when, as a result of some historical experience, such as centuries of slavery or peonage, their members enter the labor market with fewer resources than other groups. African Americans are in this position, as are Mexican immigrants. Resources include all attributes that improve the productivity of employees, including human capital, a positive work ethic, good diet, reliable health, contact networks, self-confidence, education, and so forth. Thus, if their group was or is prevented from obtaining education, group members enter the labor market with less education on the average than non-group members, a disadvantage that reduces their productivity. Even if these disadvantaged persons then earn the expected market return on their human capital, their incomes will be low because their human capital and productivity are low. Since their human capital is low because of prior exclusion, a condition that existed when they entered the labor market, we appropriately term these workers resource disadvantaged.

To illustrate the point, Table 8.1 compares the educational attainment of whites, Hispanics, and blacks in the United States in 1995. A higher percentage of
TABLE 8.1 Educational Attainment of Ethnic/racial Categories for the United States, 1995

<table>
<thead>
<tr>
<th>High school graduates</th>
<th>College graduates</th>
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<tr>
<td></td>
<td>Men</td>
</tr>
<tr>
<td>White</td>
<td>83.0%</td>
</tr>
<tr>
<td>Black</td>
<td>73.4%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>52.9%</td>
</tr>
</tbody>
</table>

Resource disadvantage rates

| Black/white   | 88.4%  | 89.2%  | 50.0%  | 61.4%  |
| Hispanic/white| 63.7%  | 64.8%  | 37.1%  | 40.0%  |


White men and women had completed high school than had either black or Hispanic men and women. Similarly, a higher percentage of white men and women had completed 4 years of college than had either black or Hispanic men or women. Blacks and Hispanics had lower average educational attainments than did whites. The causes of this disadvantage lie largely in the historic past, but the consequences are contemporary. In this sense, relative to whites, blacks and Hispanics entered the labor market with lesser resources. They were resource disadvantaged.

We distinguish resource disadvantage from labor market disadvantage. Labor market disadvantage arises when groups receive below-expectations on their human capital for reasons unrelated to productivity. Their human capital may be extensive or minimal. That does not matter. Labor market disadvantage means that qualified workers get no job or do not get a job commensurate with their experience and education. Bates refers to this situation as blocked mobility. Discrimination is a classic cause of labor market disadvantage. For example, labor market disadvantage is given when equally productive female workers earn less than their male counterparts. It also obtains when female workers do not receive promotions for which they are qualified. Hiring discrimination and a ceiling on promotions are prominent forms of labor market disadvantage that affect women. However, when unqualified and unproductive female workers earn low wages, they do not suffer from labor market disadvantage except to the extent that their wages are lower than equally unqualified and unproductive male workers. Naturally, their unqualified and unproductive situation may be itself the product of resource disadvantage, such as historic gender roles in society, but it is essential to distinguish disadvantage that arises in the labor market from disadvantage that arises earlier in society.

A significant fraction of immigrant workers are subject to labor market disadvantage because they have accents and because their educational credentials are not understood or recognized by American employers.

Table 8.2 illustrates disadvantage in the labor market. When compared to whites with comparable educational attainment, blacks and Hispanics had higher unemployment rates in 1995. The ratio of their unemployment rate to the white unemployment rate is an appropriate measure of their disadvantage, and blacks had slightly higher ratios than Hispanics.

Black college graduates experienced the most disadvantage, 1.78 times the white rate, and Hispanic nongraduates of high school the least labor force disadvantage, only 1.18 times the white rate. True, the unemployment rate of all three ethnic/racial categories declined with educational attainment, so that blacks and Hispanics were at a resource disadvantage relative to whites because they had lower average educational attainment. But blacks and Hispanics also had higher labor market disadvantage than whites. In point of fact, blacks and Hispanics experienced both labor market and resource disadvantage in 1995.

Labor market disadvantage and resource disadvantage are two different disadvantages. Any group can suffer from either, from either, or from both. When both are present, resource disadvantage may precede or follow labor market disadvantage. When resource disadvantage is in place before a worker enters the labor market, resource disadvantage precedes labor market disadvantage. When a woman who was not offered algebra in high school seeks a job, the consequences of her inferior education will narrow her career horizon, increasing the likelihood of labor market disadvantage as well. On the other hand, today's resource disadvantage can reflect yesterday's labor market disadvantage. For example, unfair treatment of female workers in the 1950s produced a generation of contemporary women who did not have the career role models they would otherwise have had. This lack was a resource disadvantage that continues to hold back female workers in the labor force, the daughters of those earlier women. In such cases, prior labor force disadvantage caused current resource disadvantage.
That said, resource disadvantage is worse than labor market disadvantage in that those resource-deprived lack the resources to undertake formal sector self-employment in response to labor market disadvantage. Because they provide at least some workers with the option of formal sector self-employment, entrepreneurial resources reduce the vulnerability of groups to abuse, discrimination, or exploitation in the labor market. For this reason, whatever else it also is, entrepreneurship is one self-defense of those treated unfairly in the labor market. Labor unions are another such defense. Arguably, labor unions provide a more comprehensive defense because they benefit and include a larger fraction of the labor force. Entrepreneurship’s direct benefit affects a minority. Nonetheless, groups that have entrepreneurs and labor unions are better defended than groups that have only labor unions.

Naturally, those never subject to unfair treatment in the labor market need no defense. One might suppose that this advantaged class includes native whites, the majority group in American society. On a simple reckoning, native whites are not disadvantaged in the labor market at all. However, some native whites are women, who experience gender discrimination in the labor market. Moreover, all native whites, if they live past 40, face employer discrimination against older workers. Without entrepreneurial resources, older native whites have no defense when this nasty contingency arises. Finally, in many universities, white men are “invisible victims” of affirmative action quotas that offer them the choice of self-employment or resignation to reverse discrimination.27 Granted, disadvantage of nonwhites is worse than that of native whites, other things being equal, but the notion that native white men never face discrimination is absurd.28

Stressing resource endowments, the resources theory of entrepreneurship explains superior entrepreneurship by superior resources. But by implication, resources theory also explains inferior entrepreneurship by inferior resources. Here, inferior resources means resource disadvantage, not labor market disadvantage. Resource-disadvantaged groups are unable to mount an entrepreneurial response in the formal sector to labor market disadvantage. Among these disadvantaged groups are blacks, Mexicans, Central Americans, Hmong, and some others, the least educated ethnoregional categories. Conversely, non-resource-disadvantaged groups (most Asians and foreign whites) more easily defeat labor market disadvantage by starting businesses of their own in the formal sector.29 This capacity renders them sensitive to labor force disadvantage that the resource-disadvantaged must tolerate.

DISADVANTAGE MUST BE MEASURED

We now wish to rectify several conceptual and methodological flaws in the existing disadvantage literature. First, several researchers failed to define or to measure labor market disadvantage, simply assuming its presence from conditions thought to cause it. Evans claimed that the main disadvantage facing immigrant workers was nonfluency in the language of the host country.30 In a series of papers, Evans31 examined the occupational effects of weak English skills. She found that belonging to a non-English-language community increased the likelihood of an immigrant’s self-employment. The reason, Evans32 supposed, is that “people with weak skills” in English have an incentive to seek “employment from their compatriots because they can get better jobs inside the enclave than they could in the broader labor market.” In turn, regardless of linguistic disadvantage, an entrepreneur benefits from the linguistic disability of coethnics because their linguistic disability creates a captive labor force of workers paid “below the market value of their skills.” In this situation, coethnic entrepreneurs “spring up to hire them,” thus causing high rates of entrepreneurship in linguistically disadvantaged groups.

Evans’s commonsense view mistakes cause and effect. Conditions that cause labor market disadvantage are not the same as labor market disadvantage, their effect. Thus, inferior language skills, health disability, racial or gender discrimination, and the like cause labor market disadvantage. However, these situations are not labor market disadvantage, so they cannot measure it. Labor market disadvantage is the consequence of these things: higher than expected underemployment or unemployment among those who do not speak the language, who have health problems, who experience discrimination, or whatever. If we declare lack of English fluency a labor force disadvantage, we should have to declare individuals disadvantaged who earn more than their expected return on their human capital despite lack of fluency in English. Groups are not disadvantaged unless they actually suffer adverse consequences of mistreatment in the labor market.33 Hispanics and blacks complain of mistreatment, and their education-adjusted unemployment rates do show a resulting disadvantage (Table 8.2). The best measure of labor market disadvantage of groups is the penalty disadvantage inflicts, unemployment, not the condition that draws a penalty. No penalty means no disadvantage. Big penalty means big disadvantage.

Infinite Causes

Second, the possible causes of labor market disadvantage are both transitory and infinite, so it is useless to enumerate them. In China, it became a disadvantage during the cultural revolution to have had educated parents, but, after the cultural revolution, it became an advantage again.34 French employers discriminate against those whose knowledge of art and music does not meet a high class standard,35 and American employers discriminate against men who know about these subjects. According to Henry Higgins in George Bernard Shaw’s Pygmalion, British employers discriminate against cockney speakers. Japanese employers discriminate against burakumin, who are not, as far as non-Japanese can tell, any different from
Disadvantage Is Continuous

Third, simple disadvantage literature has often failed to acknowledge degrees of disadvantage. Therefore, Oliver and Shapiro correctly complain that some disadvantaged people are more disadvantaged than others. However, Shapiro cannot explain why blacks were more disadvantaged than others, while Oliver and Sapiro cannot explain why blacks were more self-employed than others. Moreover, they fail to observe that Oliver and Shapiro are more disadvantaged than Hispanics in general, the minority group's disadvantage.

Labor market discrimination results in the limited mobility of the unemployed. The unemployment has a long-term effect, especially when one considers that the unemployed resources in the short-term unemployed that only the long-term unemployed have degenerated their resources in the course of prolonged unemployment.

Kim, Huh, and Fernandez, 2002, defined disadvantage in terms of underemployment and underemployment in terms of underemployment and underemployment in terms of underemployment and underemployment in terms of underemployment. They distinguished college-educated workers by those who had graduated from U.S. institutions and those who had graduated from foreign universities. However, since there is no possible measure of labor force participation, labor force participation cannot be measured in terms of underemployment. It is, however, possible to measure labor force participation in terms of underemployment.

Unemployment, means long-term and short-term mobility among job-seeking and unemployment, the penalties of disadvantage. Hence, at least, closure is possible.
Both the underemployed and the unemployed have objective grounds for dissatisfaction with their labor force status and, hence, for considering self-employment. But the underemployed have more choice about timing their entry into business than do the unemployed. They can wait until conditions are ripe rather than having to rush in desperation into overcrowded or unsuitable markets. Similarly, the underemployed can accrue financial resources and training for subsequent self-employment while working at their unsatisfactory jobs. Indeed, training underemployed coethnics for self-employment is a principal resource of small ethnic businesses. In sum, the underemployed have more financial and skill resources for legitimate self-employment than do the permanently unemployed. Especially when the underemployed have higher educational credentials and job skills unused in their occupation, they possess important resources for self-employment. Because the permanently unemployed typically lack much human capital, they have a reduced capacity for self-employment even if their need is higher. Worse, the longer they are unemployed, the more their human capital falls behind what their age cohort’s employed members command.

True, those more disadvantaged have more incentive to undertake self-employment than do those less disadvantaged. Increasing the subjective intensity of unemployment (temporary, protracted, and permanent) increases the economic attractiveness of self-employment. For the permanently unemployed underclass of great cities, emigration, begging, public welfare, crime, and self-employment offer the only alternatives to starvation. Public welfare and self-employment are incompatible in law because welfare recipients are not permitted to receive benefits while obtaining income from a business. Fortunately, some agencies are trying to change this situation. Even though welfare and self-employment are not incompatible in practice, some welfare recipients unlawfully operate business enterprises on the side. Instead of expressing indignation about this freeloaders minority, the ignorant political response, one might ask why all welfare recipients do not also operate a clandestine small business on the side. Fear of detection is probably not the only reason. Some welfare recipients operate no business because, thanks to public welfare, they need not. Welfare supplies their modest needs. In addition, however, many welfare recipients do not operate a side business because, despite the incentive, they lack the resources. Those who lack resources cannot undertake self-employment no matter how desperately they need income.

Even the Disadvantaged Require Resources

Simple disadvantage is enough to explain self-employment in the informal economy. The informal economy requires next to no resources. But even those solely disadvantaged in the labor market need resources to undertake self-employment in the mainstream. Therefore, disadvantaged workers with more resources are the most likely to try or to succeed in self-employment. No matter how skilled or how educated, an unemployed person earns nothing. However, if highly skilled, the worker’s economic loss is greater than if unskilled because an unskilled person earns a lower return on his or her human capital when fully employed. In this sense, unemployment represents a greater absolute economic loss for the trained and experienced than for the unskilled beginner. This idea explains Johnson’s findings that high-skilled workers were more likely to become self-employed than were low-skilled workers. Additionally, disadvantaged workers with skills and education have more resources at their disposal with which they can undertake their own business firm in response to labor market disadvantage. It therefore follows that labor force disadvantage promotes more entrepreneurship among those with resources than among those lacking them.

REVIEW

Based on this review and critique of the disadvantage literature, Table 8.3 summarizes our theoretical discussion. Among groups suffering resource disadvantage, additional labor market disadvantage has no effect in stimulating compensatory entrepreneurship. In this case, labor market disadvantage increases the need for self-employment without, however, providing the necessary resources. As W. S. Gilbert put it, "they would if they could, but they are not able." Only among groups not resource disadvantaged does labor market disadvantage encourage entrepreneurship. Those not disadvantaged at all have the resources, but they lack the motive to undertake defensive entrepreneurship. Therefore, their self-employment rate is average.

Groups with high levels of entrepreneurship suffer labor force disadvantage without resource disadvantage. Their labor force disadvantage provides a motive for defensive self-employment, and their extensive resources provide the means. Abused in the labor market, they have the resources to start businesses of their own. Middleman minorities fit this model. Outsiders, and subject to discrimination,

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<td>Group resource disadvantage</td>
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middleman minorities have elaborated a cultural preparation for entrepreneurship that facilitates their defensive self-employment. Indeed, in some cases, middleman minorities make a virtue of necessity, turning defensive entrepreneurship into a source of gigantic capitalist profit. But labor force disadvantage does not have the same energizing effect upon nonmiddleman groups that lack resources. Lacking resources of entrepreneurial self-defense, with few exceptions, black and Hispanic underdogs must endure whatever abuse employers dish out, escaping only into crime or the informal economy. Their labor market disadvantage generates high self-employment in those sectors, but their resource disadvantage excludes them from mainstream self-employment.

DISADVANTAGE AND THE INFORMAL ECONOMY

Comparing the four major ethnoracial categories, Light and Rosenstein found consistent support for the resource-constraint version of disadvantage in their survey of 272 metropolitan areas of the United States. However, as they noted, the census data they employed could not look into the informal sector. Yet resource-constraint theory predicts much higher self-employment for blacks and Hispanics in the informal sector than in the mainstream economy. The informal economy simply demands fewer resources to enter than does the mainstream economy. Therefore, those suffering labor market disadvantage and resource disadvantage have motive and capability to start informal sector businesses. If so, blacks and Hispanics should demonstrate much higher self-employment rates in the informal sector than they do in the mainstream. Studies that focus on average self-employment in the formal sector, as did Light and Rosenstein’s, simply cannot evaluate participation of ethnoracial groups and categories in the informal sector.

Partially to remedy this shortcoming, we introduce Table 8.4, which is also derived from census data. The firms enumerated in Table 8.4 are all in the formal sector; none is in the informal sector. Nonetheless, by arranging the formal sector firms in descending order of magnitude, we capture the result of declining resource requirements upon the ethnoracial composition of the self-employed. In the top panel, among firms with 100 or more employees, still considered small businesses, black and Hispanic entrepreneurs are very rare indeed. Together, they constitute only 1.8% of owners in this size class. In the next size class, firms with any employees, black and Hispanic entrepreneurs are more than twice as numerous. Together they represent 5.4% of all owners in the size class. In the next size class, firms with no employees, the representation of blacks and Hispanics doubles again. Black and Hispanic firms together represent 10.2% of nonemployer firms. Finally, when we look only at nonemployer firms whose owners worked fewer than 20 hours weekly, we are getting quite close to the informal sector. In this bottom tier of firms, blacks and Hispanics together represented 11.7% of firms. In short, as we proceed down the size classes, approaching the informal sector, a promised land that, like Moses, we cannot enter, the representation of blacks and Hispanics in self-employment consistently increases just as the resource-constraint theory predicts.

The bottom panel of Table 8.4 offers a related but different test of the resource-constraint theory. In the top tier, among firms that grossed more than $1,000,000, blacks and Hispanics together constituted just 2.2% of all business owners. In the next tier down, among business firms with revenues between $100,000 and $999,999, the black and Hispanic owners represented 4.1% of all owners. Firms with gross revenues from $5000 to $999,999 represented 11.2% of all owners. Firms with gross revenues from $500 to $999,999 are the next to the bottom size class. In this class, black and Hispanic owners were 9.0% of all owners. Finally, in the smallest size class of firms, those that grossed less than $5000, blacks and Hispanics constituted 11.2% of owners. Obviously formal sector firms grossing less than $5000 yearly are much closer to the informal sector than formal sector firms grossing $1,000,000 or more. As the size class decreased, the bottom panel also finds increasing representation of black and Hispanic entrepreneurs in the business population. This result is exactly what one would expect from the resource-constraint theory.

DISCUSSION

A long, large, and even historical body of literature has developed around the disadvantage theory. Weber and Sombart thought that entrepreneurship was a product of religiously inspired affinities plus disadvantage, but they stressed the
affinities. In the 1980s, the classic formula was pared down to disadvantage alone. This stripped-down disadvantage literature has yielded widespread agreement that those disadvantaged in wage labor turn to entrepreneurship in self-protection. However, operating out of that consensus, contemporary researchers encountered many problems that suggest the desirability of retrieving and expanding the affinities argument. The concept of entrepreneurial resources includes the classical affinities variable, expanding it to include other material and cultural sources of entrepreneurship such as social capital and cultural capital. This usage distinguishes our disadvantage theory from Timothy Bates's economic version, in which, he declares, ethnic resources play no role.63

We distinguish simple disadvantage theory, the model so popular in the 1980s, from a resource-constraint variant. Simple disadvantage theory predicts augmented self-employment in proportion to a group's disadvantage: the more disadvantaged, the more self-employment. Simple disadvantage theory does not invoke resource disparities. The resource-constraint version maintains, in contrast, that those most disadvantaged in the labor market often lack the resources to undertake self-employment in the mainstream. Therefore, it predicts the most formal sector self-employment among persons slightly disadvantaged who are not resource-disadvantaged. Here the resources provide the means, and the labor force disadvantage the motive. Entrepreneurship requires means as well as motive. In the simple disadvantage theory, the disadvantaged have ample motive for self-employment, but they often lack the means, material and cultural.

Census data assume firms of a sufficient size and permanence that census enumerators could find and measure them. The informal economy lies outside this range. The resources required to operate in the informal economy are appreciably fewer than those required in the mainstream economy. Selling pencils on the street requires only pencils and a tin cup. Manufacturing pencils requires millions in start-up capital, so it is no wonder that millionaires manufacture pencils and paupers sell them. One has to take resources into account when explaining participation in mainstream entrepreneurship. The simple disadvantage theory offers a satisfactory explanation for entrepreneurship in the informal economy. Indeed, those with resources would normally avoid the informal economy since their resources give them entry into the mainstream. We showed that as one descends the hierarchy of formal sector firms, from bigger to smaller, the participation of resource-deprived blacks and Hispanics increases. This finding is exactly what resource-constraint theory predicts; it implies, furthermore, that could we see participation rates in the informal sector, still the black hole of entrepreneurship research, we would find the resource-deprived more heavily participating than in the formal sector.

Although impressed by the superiority of the resource-constraint version for the formal sector, we do not jettison simple disadvantage theory. Rather, we propose that simple disadvantage theory explains participation in the informal economy, in which resource requirements are minimal anyway. That is why resource-deprived groups, such as blacks and Hispanics, are more active as entrepreneurs in the informal economy than in the formal economy. Its resource-constraint variant better explains entrepreneurial participation in the economic mainstream that the census depicts. Although our results pertain to American immigrant and ethnic minorities, we find a direct line of intellectual continuity with classical theories that confirms and supports this individual analysis.

DISADVANTAGE AND THE ETHNIC-CONTROLLED ECONOMY

Disadvantage explanations have been most commonly applied to the analysis of ethnic ownership economies, wherein groups impeded in the larger labor market enter self-employment as an alternative to the absence or poor quality of work available in existing firms or the public sector. However, a significant body of research concerning ethnic niches also discusses the role of disadvantage ultimately yielding an advantageous position—what Jobu64 calls ethnic hegemony—for group members in the ethnic-controlled economy.65 Just as in the case of the ethnic ownership economy, simple disadvantage alone is generally not sufficient for the development of ethnic niches. Rather, it is groups characterized by a combination of disadvantage plus resources that develop advantageous ethnic niches. Disadvantage yields benefit in the following manner: Certain ethnic and immigrant groups suffer resource deficits in the labor market. They may be undocumented, lack English language skills, have little formal education, lack American diplomas and credentials, or lack familiarity with American work practices. These liabilities mean that desirable and well-paid jobs are unavailable (at least with wages commensurate with those for native-born white men). However, employers realize that despite these shortcomings, workers do have other strengths, such as a strong work ethic, and are willing to employ them, but often at substandard pay.66 In fact, a sizable body of literature surveying employer attitudes demonstrates that employers in a wide range of industries prefer certain groups of immigrant and ethnic workers (most commonly Asians, West Indians, and Latinos) over native-born whites and blacks.67

In the opinion of employers, immigrant workers lack "hard skills" such as literacy, numeracy, and technical, job-related skills. However, their ample endowment with "soft skills . . . such things as communication and people skills, teamwork skills, demeanor, motivation, flexibility, initiative, work attitudes, and effort" make up for their lack of the former.68 As a result, ethnic minority groups have saturated certain occupations. They have been able to develop niches in unskilled labor, factory work, landscaping, domestic service, hotel and restaurant positions, garment assembly, and other endeavors.69

In other cases, immigrant and ethnic workers may possess hard skills, but due to the labor market disadvantage produced by discrimination and outsider status,
may accept jobs refused by natives. For example, because they speak English, are well-educated, and satisfy affirmative action mandates, West Indians fill the ranks of government, nonprofit, and health care jobs in New York City. The West Indian hold over this niche is assured because such positions do not appeal to Americans, yet other immigrants lack the skills they require. Similarly, immigrant and minority professionals often concentrate in niches rejected by native whites, such as government and public health. When ethnic niches develop, incumbents may then use their concentration and solidarity to acquire perquisites including promotions, flexibility, increased wages and benefits, and the provision of coethnics with jobs. The majority must now deal with the minority group or do without.

It is important to note that groups most successful in developing such niches are characterized by a combination of resource disadvantage and other assets, including soft or hard skills and strong ethnic networks. Groups that encounter labor market disadvantage to the extent that they are infrequently hired, such as inner-city black men, have no opportunity to develop a niche. Others, including immigrant women working in domestic service or the garment industry, have been unable to develop significant control over their niches. For these groups, disadvantage remains just that and does not yield ethnic-controlled niches.

Ethnic ownership economies operate in environments that sometimes contain legal and institutional obstacles. When such obstacles exist, ethnic economies survive despite the resistance of their environment, and they could prosper better were that resistance eliminated. The American financial system poses this kind of obstacle. Enmeshed in obsolete laws, and wedded to banks as the flagship institution, the American financial system constrains ethnic ownership economies, inhibiting their growth and preventing them from generating all the jobs and economic mobility that would otherwise be possible. Under the circumstances, a policy-oriented review of ethnic economies profitably addresses the manner in which the American financial system undermines ethnic economies, the reasons for it, and appropriate reforms.

Although the American financial system delivers credit effectively to the mainstream, it has consistently failed to deliver basic savings and credit outside the mainstream. For at least a century, banks have neglected low-income customers, small business, inner cities and slums, immigrants, nonwhites, and even women. Neglect means infrequent service outlets, inconvenient service, high costs, and institutional unwillingness to make small consumer or business loans at all. This neglect constrains and inhibits the entrepreneurship of the disadvantaged, causing their ethnic economies to grow more slowly than would otherwise have occurred.
or not at all. Neglect prevents informal sector firms from expanding into the formal sector. It prevents some formal sector firms from growing and stifles others altogether. In this way, the financial system opposes the economic development of the neediest and most vulnerable sectors of American society.

This complaint is not new. The founders of the credit union movement leveled it against banks in the first two decades of this century. As a result of institutional reforms then enacted, credit union movement has remedied the banking industry's neglect, bringing savings and credit facilities to affinity groups. Credit unions are growing rapidly. The credit union movement experienced fivefold growth in assets between 1980 and 1995, whereas, in the same period, commercial banks only doubled their assets. However, in 1998, the assets of credit unions still represented only 6% of the assets of commercial banks and savings associations in the United States. Commercial banks and thrifts still carry principal responsibility for credit and saving in the American economy, and they continue to obstruct and inhibit the ability of ethnic communities to help themselves.

Indeed, despite the Community Reinvestment Act of 1977, the financial situation has worsened in the past two decades. When, following Reagan-era deregulation, banks reduced their service presence in American inner cities, their already inadequate level of financial service deteriorated even further, and is now worse than it was before deregulation. In the wake of the departing bank branches, check-cashing outlets and pawn shops have proliferated in inner cities. Excluding racketeer- and state-sponsored lotteries, whose real if destructive financial role is concealed from view, check-cashing outlets and pawn shops are now the financial agencies most available to inner-city residents. Check-cashing outlets charge customers 3% of face value just to cash a paycheck or a welfare check. Neither pawn shops nor check-cashing outlets offer savings accounts. Therefore, in inner cities, financial management is more expensive and less convenient than elsewhere.

Evaluating this dreary situation, counterparts to which exist in other countries, Muhammad Yunus, founder of the Grameen Bank, identifies the banking industry as a contributory cause of poverty, welfare dependency, and economic stagnation and their related social problems. Unfortunately, his arguments have force. After all, whatever they also involve, both poverty and economic development, its converse, are centrally about money, saving, and credit. Mismanaging one's money, not saving one's money, and not enjoying access to business or mortgage credit create poverty where poverty did not already exist and exacerbate poverty where it already exists. The opposite conditions promote personal affluence and local economic development through the growth of ethnic economies. Therefore, when financial institutions enable low-income people to manage their money wisely and to obtain credit to buy a home or to start a small business, then the financial institutions help to minimize poverty and to prosper ethnic ownership economies.

However, when a financial system not only does not support poor people's ability to manage their money, to save money, to buy a home, or to start a business, but actually inhibits them all, then, Muhammad Yunus concludes, the financial system causes the poverty of the poor, making it worse and more extensive than it otherwise had to be. The most damaging practice is unwarranted withholding of credit from very small businesses. Very small businesses created nearly one-half of net new employment in the United States between 1990 and 1995. Small businesses created three-quarters of new net employment. When banks ignore small and very small business, they sabotage the job-creation process, dooming millions unnecessarily to unemployment and poverty. This indictment is very serious because, if true, the banking and financial systems coproduce and exacerbate poverty; they do not just coexist with it.

THE BANKERS' COUNTERARGUMENT

But is Muhammad Yunus's dramatic conclusion entirely fair? In self-defense, bankers argue that banks cannot service the poor because of inescapably negative cost considerations: providing financial services to low-income communities is unprofitable. Much evidence supports the industry's contention. In a comprehensive review article, Solomon asserts that "The costs for banks to originate and service a $1,000 loan approximate those associated with a $100,000 loan," but the returns are 1/1000 as large. Banks are not charities; they require revenues that pay for their services. Moreover, banks have obligations to stockholders and depositors such that "they cannot and should not be required to extend credit if sound judgment suggests undue risk." On this view, costly and inconvenient financial services are a regrettable but unavoidable consequence of the high cost of providing those services to low-income communities.

In a sense, the bankers' rebuttal even understates the institutional problem because the financial problems of the poor are cultural as well as situational, and bankers mention only situational problems. Anyone must acknowledge in fairness that poor people do not understand money management and credit so well as the nonpoor. A century ago, bankers condemned the improvidence and thriftlessness of the poor. Today, one obtains the same coverage, less pietistically, by acknowledging the nonmembership of the poor in the middle-class culture of money management. By the middle-class culture of money management we mean the basic knowledge, skills, and attitudes that permit people effectively to manage their finances. These resources are an important component of the cultural capital of the middle class. If they acquire it at all, people acquire the culture of money management as human capital, cultural capital, or both. That is, people acquire the money culture in school, families of orientation, or both. Since neither schools nor families communicate the money culture to poor people, poor people do not routinely acquire it. Lacking basic financial knowledge, the poor consume incompetently, gambles more, and save less than they otherwise could. Their own financial mismanagement renders poor people even more difficult for the mainstream financial system to service than their low incomes would strictly require.
Many of the same, distressing circumstances apply also to women. Women earn less than men, and, as a class, they understand money management less well than men. Therefore, many would require adult education in order to attain financial literacy. The stock market guru Elaine Garzarelli is enough proof that women do not lack financial capability. However, at least in Western societies, the cultural capital handed down by men is not frequently includes money management. The cultural capital handed down by men is the same class. The causes of this state of affairs may invite feminist outrage, but there they indisputably are. Women’s low wages and their ignorance of the money system render women less profitable bank customers than men. When women are also poor, and two-thirds of poor adults are women, the financial incompetence and vulnerability of women accentuates the financial incompetence and vulnerability of the poor. Moreover, even as business owners, women own smaller firms than men, can advance less collateral than men, and so make even less profitable bank customers than men.

The problems of small business borrowers are somewhat different from those of either the poor or of women. Unlike poor women, small business borrowers do not lack financial skills. Small business owners’ incomes are also not lower than those of wage and salary workers. Small business owners have bank accounts and credit cards. However, their business credit needs are too small for profitability. Banks earn little or nothing on small business loans. The cost of administration of small loans’ approaches or reaches the bank’s revenue from the loan. Therefore, banks avoid small business loans because the costs of the loans are as high or higher than the income they generate. When banks cannot profitably lend, small business owners cannot hire, unemployment results, and poverty increases. This outcome is unfortunate, but it is arguably not the fault of the banks.

PARADOXES OF BANKING

To the extent that high costs and low revenues prevent banks from serving the poor, women, and small business without subsidies, banks escape blame for the rejection these groups receive and for the additional poverty that flows from it. This failure is society’s problem, not the banks’ problem. Facing this plausible argument, the temptation is to conclude that saving and credit cannot be delivered to the poor, to immigrants, to women, or to small business unless Congress subsidizes the delivery from taxes. Bankers also argue now that informal agencies are available to pick up the rejectees.

However, bankers may exaggerate the unprofitability of underserved markets in order to whitewash their own misconduct. This is the task that American critics of the banking industry have taken with respect to the undercredit needs of racial minorities. Without denying the high costs of servicing these problem constituencies, critics complain that bankers discriminate against minorities for social reasons and not just because they are not creditworthy. Anne Shlay’s pioneering study of lending in Chicago found that “credit markets were segregated by race” such that, net of creditworthiness, black and Hispanic neighborhoods received “far less conventional finance than comparable white neighborhoods.” Squires and Kim found that the likelihood of black applicants’ credit obtaining approval varied directly, with the proportion of black employees in the banks. The critics’ case was strengthened when the Boston Federal Reserve Bank, a pillar of the banking establishment, published its own study of 131 Boston-area banks. Results showed that blacks and Hispanics were 56% more likely than nonminorities to be denied a mortgage loan net of creditworthiness.

This result confirms the independent contribution of social discrimination to loan denials, indicating a situation that requires immediate rectification. However, it only weakens and does not demolish the banking industry’s self-justification. Taken together, strictly economic and cost-relevant factors, such as previous bankruptcies and late payments, were vastly more important predictors of loan denials than was race. The Boston results suggest that bank decisions depended principally upon creditworthiness and only secondarily upon race. If creditworthiness is already the main determinant of loan denial, and the negative contribution of race is minor, then even the elimination of racially motivated denials will have, at best, a minor influence upon the rate of loan denials minorities receive. Moreover, what about loan denials to small business and to women? We have still no comparable evidence that social discrimination plays a big role in these denials.

Related to this issue is measurement of just how unreasonably bad is the service that banks now provide to low-income neighborhoods. By unreasonably bad service we mean service that is worse than it has to be in view of the costs of banking. Reasonably bad service is bad service that reflects the realistic cost constraints of servicing problem markets but that does not exaggerate the cost constraints. If existing banking service is much worse than it has to be, and bank profits too high, then reform offers some possibility for improving the service banks offer, thus strengthening ethnic ownership economies. We agree that reform would have this beneficial effect. However, existing evidence does not suggest that the service banks now offer low-income neighborhoods falls wildly short of reasonably bad service. To assess the extent of banker abuse of low-income neighborhoods, the Woodstock Institute undertook a study of business loans in the six-county Chicago area between 1993 and 1996. After calculating the ratio of new business loans to existing businesses in poor, medium, and rich neighborhoods, Immegluck and Mullen found that poor neighborhoods received only 76% as many business loans as they should have obtained. At the opposite extreme, rich neighborhoods received 7% more business loans than would have been indicated by their share of existing business firms. These results indicate unreasonable underservice of poor neighborhoods, but the underservice is modest, not egregious. Moreover, when one considers size and profitability of loans, and not just their number, one concludes that the banks’ service record is better than the Woodstock results imply. In that case, the Woodstock results actually suggest that
Chicago-area banks were not providing unreasonably bad service to low-income neighborhoods.

We agree that government must prohibit banker discrimination, a serious white-collar crime. Prison sentences are appropriate penalties for bankers who discriminate on the basis of race, class, or gender. That said, rather than demonizing bankers, as critics of the banking industry do, we conclude that banks are unable to deliver unsubsidized services to some markets because of cost considerations. Therefore, the banks' potential for service improvement would be modest even were they run by angels rather than bankers. However, this conclusion does not imply that no financial institution can deliver services to problem markets. Possibly banks cannot deliver these services, but other nonbank financial institutions can. In this case, the inability of the American financial system to service the low-income communities would stem from excessive reliance upon banks rather than from the misconduct of bankers. After all, banks are only a part of any financial system. Just because banks cannot deliver services to the troubled markets, one cannot conclude that no self-sustaining, unsubsidized institutions can deliver services there. Possibly our problem is a one-size-fits-all financial system whose flagship institution, banks, cannot service certain markets. In that case, reform of the financial system would strengthen ethnic economies by expanding the scope of nonbank institutions.

MICRO CREDIT AND INFORMAL CREDIT

In point of fact, the American financial system already contains two nonbank financial institutions that target and serve exactly the problem markets that banks avoid and serve badly when they serve them at all. These are microcredit and informal credit. Informal credit refers to rotating savings and credit associations (ROSCAs), the current nomenclature for what were once called rotating credit associations. The new terminology has one big advantage. The words reflect the institution's dual role in saving and credit, whereas the old term, rotating credit association, gave the erroneous impression, encouraged by Bates, that ROSCAs only provide credit. In actuality, saving is the ROSCAs' main activity. Found widely in Latin America, Central America, Africa, and Asia, ROSCAs have different names in different regions, and the practice also varies somewhat. For example, the Korean ROSCA is called kye, the Jamaican ROSCA partners, and the Haitian ROSCA ten. But all ROSCAs have in common their defining feature: a club whose members contribute to a fund that is rotated among the membership at successive meetings until all the members have received the fund and all but the last have enjoyed an advance upon saving. When all have received the joint fund, the club is terminated, and a new one formed, usually with substantial continuity of membership.

ROSCAs are old but not ancient; the oldest ROSCAs are about 400 years old, and their membership is predominantly female in most countries. Modernization theorists of the 1960s predicted their imminent demise in collision with the supposedly superior financial institutions of advanced market capitalism, especially banks. Haveman and Rao claim that modernization did wipe out indigenous ROSCAs in the United States, the parents of today's thrifts. However, Third World ROSCAs have not only survived into the present, they are more pervasive than ever. "In a typical year, at least one-fifth of all households in Taiwan participate in ROSCAs." Moreover, Third World ROSCA users are not principally remote peasants, insulated from modern financial institutions. Rather, the most likely ROSCA subscribers in the Third World are white-collar workers in big cities. The survival and proliferation of ROSCAs in Third World cities signals a traditional financial institution that competes successfully with banks.

Unlike ROSCAs, microcredit is new in the world. Solomon defines microcredit as "a loan fund, usually organized as a nonprofit organization, [that] makes very small short-term working capital loans to people who wish to start or expand a small business." The borrowers then repay the loan from the proceeds of the business. At the end of the loan cycles, the borrowers have repaid their loans with interest, but they still own the small businesses they started with their loans. The case of Mrs. K. is typical. Mrs. K is a member of the Na Poe Village Bank in Northeast Thailand. This bank was created by the Catholic Relief Services. Like most women in her area, Mrs. K works in rice fields and raises pigs and chickens to sell on the market. Upon joining the village bank, Mrs. K got a $50 loan. Using this money, she bought more pigs; on the proceeds from the sale of these pigs, she repaid her loan. This repayment made her eligible for a $75 loan. With her $75 loan, she bought chickens and ducks and increased her silk weaving. By the end of the fourth loan cycle, Mrs. K had personal savings of $160, the owned a viable business of her own, she had improved her family's living standard, and she had even helped her oldest son to start his own silversmith business.

The oldest of the microcredit agencies and the parent of the concept is the Grameen Bank of Bangladesh. The Grameen Bank began in 1976, when its founder, Dr. Muhammad Yunus, loaned each of 42 impoverished Bangladeshi women $27, stipulating that recipients invest the loan in a business. Recipients purchased raw materials for weaving and potting businesses and earned from their microbusinesses the wherewithal to repay their loans. As of 1998, the Grameen Bank, of which Muhammad Yunus is still president, had 12,000 employees who staffed 1112 branches that served 2,300,000 borrowers in 36,000 villages of Bangladesh. Every month the Grameen Bank lent $35,000,000 in "tiny loans." Grameen Bank loans average $100, and the bank enjoys a repayment rate of 98%, higher than what the Bank of America obtains from its loans in California.

The Grameen Bank is not really a bank; that is why it can target markets that real banks cannot service. True, Grameen Bank meets its operating expenses by collecting interest from loan recipients just as do banks. Moreover, this interest is pegged at market rates. However, Grameen Bank is a nonprofit organization, not a profit-making business. Second, Grameen Bank now loans only to impoverished women. Third, and most important, Grameen Bank expanded its relationship with
customers far beyond the arm's-length convention of American business. Indeed, this extension is its unique innovation. Without utilizing encumbering legal contracts or even requiring collateral, Grameen Bank assigns borrowers to "solidarity groups" of five members. Each group member is responsible for the debts of the other four, and in case any group member defaults on her loan, the other four must repay her defaulted loan or lose eligibility for further loans from Grameen Bank. This compulsory interdependence powerfully encourages the formation of a moral community within the solidarity group.53 Finally, Grameen Bank requires borrowers to modernize their social existence, pledging, for example, to send their children to school, to build a latrine, and to practice birth control. No one can become a Grameen borrower who does not join a solidarity group and pledge to modernize her family's lifestyle.

ROSCAs AND MICRO CREDIT IN THE UNITED STATES

The extent of ROSCA use in the United States today is harder to ascertain than the extent of microcredit use. ROSCAs are informal; they do not report operating statistics. As a result, the only evidence about ROSCAs is social scientists' ethnographic research. This evidence certainly proves that ROSCAs are widespread in virtually all contemporary immigrant communities that originated in the Third World.54 Among current immigrant groups for whom solid evidence of extensive ROSCA involvement in the United States now exists are Koreans, Vietnamese, Mexicans, Salvadorans, Guatemalans, Trinidadians, Jamaicans, Barbadians, and Ethiopians. Historical research also shows that ROSCAs were common among Asian and Caribbean immigrants in the United States in the first half of this century, but some of the groups that used ROSCAs then, such as the Japanese Americans, no longer do so. At least in the case of third-generation Chinese Americans, who have also stopped using ROSCAs, Wong attributes the dissociation to the availability of homes for collateral on any loans.55

ROSCAs serve immigrants, minorities, women, and small business, constituencies banks avoid. ROSCAs do not service the destitute, the unemployed, nor those without social capital. Of course, immigrant ROSCAs operate at economic levels appropriate to their participants. Wealthier immigrant groups, such as Koreans, have higher-stakes ROSCAs than do poor immigrants, such as Salvadorans. However, even within immigrant communities, ROSCAs adjust the stakes to suit the economic level of participants. For example, Korean ROSCAs that cater to business owners sometimes require monthly investments of $5000, whereas Salvadoran ROSCAs that cater to workers require monthly investments of $50. ROSCAs tap informal sources of creditworthiness, expanding the circle of the creditworthy beyond what banks can imitate. For example, ROSCAs can lend to a young person on the social collateral provided by parents, who, though not obliged by law to do so, are known to stand surety for that young person's debt. Banks cannot do that. However, even ROSCAs cannot lend money to impious and unemployed youths who lack creditworthy parents willing to stand surety for them. In general, ROSCAs serve those who have both dependable incomes and social capital; they cannot serve people who lack either one.

Unlike microcredit borrowers, who must invest in business firms, ROSCA members may use their loans for any purpose. Latinos in American cities mainly use ROSCA loans for consumption, especially weddings, quinceañeras, and consumer durables. Few Latinos apply ROSCAs to business purposes. Among Caribbean and Asian ROSCA users, the largest group also utilize ROSCA cash for consumption, but significant minorities involve ROSCA funds in their business operations. One way is up-front as equity capital; more commonly, ROSCA loans provide short-term credit to relieve cash-flow problems. ROSCA credit occasionally enters directly in home purchase, whether as downpayment or mortgage payment.56 Of course, a big motive for forced and energetic saving in a ROSCA is downpayment on a home, so equity funds saved in ROSCAs commonly provide the downpayment for immigrant homes. ROSCAs may explain the much more rapid growth of home ownership among poor immigrants than among impoverished native blacks and native whites.

MICRO CREDIT IN THE UNITED STATES

The profile of microcredit in the United States is easier to document than is the profile of ROSCAs. Severens and Kays identified 328 microenterprise programs in 47 states in 1995.57 These programs are new. Of these 328 agencies, 85% were less than 10 years old.58 In their short lives, the 328 agencies had collectively loaned $126 million to 171,555 needy people. Microentrepreneurs received $35 million in 1995 alone. Of the 36,211 businesses that received assistance in that year, 38% were start-ups and the remainder existing businesses. Women and nonwhites were the majority of borrowers. Three-quarters of microcredit agencies had a borrower clientele that was predominantly women; 62% of borrowers were also nonwhite.

American microcredit shares with its international parent this basic contract: You must repay your loan, attend your training program, and manage your business in order to receive further assistance (Edgecomb, Klein, & Clark, 1996). However, American microcredit agencies have considerably diversified program activities beyond Grameen's group lending method. In fact, only a fifth of American microcredit programs continue the Grameen-inspired policy of group lending. American microcredit agencies offer forms of microcredit that do not derive from the Grameen parent. The first are credit-led individual loan programs that sometimes also offer technical assistance and training. Of all the microcredit programs, the credit-led individual loans most closely approximate banking. Their goal is to provide credit to those who, lacking access to bank credit, are nonetheless capable of
developing and managing their businesses with minimal support. The agency provides that minimal support and seeks to recoup the cost from user fees.

The second American innovation is training-led strategies, in which successful clients gain access to credit after they complete their training.\textsuperscript{57} Training-led strategies have two principal forms: business development strategies and welfare client strategies. The business development strategies require clients to develop a viable business plan before they access credit. Training of welfare clients has a similar structure, but its training period is more intensive, typically 80 hours as opposed to 28 hours. Moreover, the training program includes more personal assistance in recognition of the welfare clients’ low educational levels. Finally, the training program requests welfare authorities to exempt trainees from legal prohibition against income generation or asset accumulation on the part of welfare recipients.

Of those that offer them at all, American microcredit agencies target Grameen-style group lending programs to the most marginal users. However, for reasons that are not understood, but probably include the prevalence of drug and alcohol addiction in the United States, group lending has been less effective in the United States than had been expected from the Grameen example. Balkin concludes that, compared with the poor of Bangladesh, the poor of the United States are also “relatively impoverished in social capital,” and so are actually worse situated than the poor of Bangladesh.\textsuperscript{58} We agree. As a result, repayment rates are lower in the American microcredit groups than in the Grameen Bank’s groups. The American solidarity groups also have been harder to form and to keep together than the Bangladeshi groups. American groups have not exerted the kind of loan discipline over members that had been expected from the Grameen Bank experience, and cost-effectiveness has been less than expected as well.\textsuperscript{61}

American microcredit staff members tend to select and promote the most creditworthy of the impoverished, not the least creditworthy as does the Grameen Bank. In view of the difficulty American microcredit agencies experience in forming solidarity groups, a problem we attribute to the troubled environment of social capital, they incline toward strategies that stress the individual client who obtains counseling and education. The most creditworthy of the disadvantaged clients offer the most successful and cost-effective prospects for individual training. Therefore, American microcredit agencies select those individuals to coach who have the highest likelihood of success in the program. American recipients of microcredit loans typically have more formal education and more job experience than the average welfare recipient and sometimes even more than the average American. Although living in poverty and on welfare, these microcredit trainees had class resources that the poorest Americans lack.\textsuperscript{62} For these reasons, Bates and Servon declare that “microenterprise programs do more to help those who exist at the margins of the mainstream economy” than to help “those who are completely cut off.”\textsuperscript{63} Although a fair encapsulation of microcredit programs’ performance to date, Bates and Servon’s generalization does not distinguish between the three principal forms of American microcredit. Borrowers enrolled in Grameen-style solidarity groups are the poorest and least creditworthy of the microcredit clients. Therefore, the statistics to which Bates and Servon call attention probably apply to the 80% of microcredit programs that do not utilize the Grameen-style technique of solidarity groups. Less effective here than in Bangladesh, Grameen-style microcredit is not completely ineffective in the United States.

**MICROCREDIT AND INFORMAL CREDIT**

How do microcredit and ROSCAs make unsubsidized saving and credit available to people whom banks cannot service? This is a feat. Let us acknowledge that their success in this task is only partial. ROSCAs do not and cannot service those who lack social capital, jobs, or the tradition of participating in ROSCAs. These limitations restrict their scope. Conversely, unlike the Grameen Bank of Bangladesh, American microcredit agencies still require subsidies, albeit small and cost-effective ones. Microcredit agencies can, however, service people who lack jobs, social capital, and the cultural tradition of ROSCA participation. These advantages extend their potential clientele into groups that ROSCAs cannot reach any more than can banks. On the whole, ROSCAs and microcredit are not competing for the same clientele. The clients of microcredit agencies are poorer.

This said, microcredit and informal credit share more than just nondiscrimination against minorities.\textsuperscript{64} Ultimately, Grameen-style microcredit and informal credit succeed in the underserved markets because they are not banks. The key difference between Grameen-style microcredit and informal credit on the one hand and banks on the other is the various institutions’ different orientation to the borrowers’ social capital. True, banks utilize formal credit agencies to assess creditworthiness. Credit agencies sell a commodified social capital, so one cannot say that banks make use of social capital at all. However, banks neither build nor require social capital among borrowers, nor do banks accept social capital as loan collateral.\textsuperscript{65} Banks customers enter the bank as individuals and no matter how many years they remain bank customers, they never build social capital with other customers.

In contrast, ROSCAs require applicants to present already existing social capital as a condition of borrowing.\textsuperscript{66} Only those whose existing social capital guarantees their creditworthiness\textsuperscript{57} will be accepted as ROSCA members. Reliance upon preexisting social capital permits ROSCAs to make noncollateralized loans because the collateral is the borrowers’ social capital. The reason ROSCAs can extend the boundary of creditworthiness beyond what banks can attain is ultimately this capability: ROSCAs accept enforceable social capital as collateral. If banks could enforce existing social capital, they might accept it as collateral. In that case, banks could also make loans to the poor, to immigrants, to women, and to small business. However, banks cannot accept social capital as collateral, and so long as they remain banks they will never have that capability: ROSCAs succeed in their niche because they do something banks cannot.
Unlike ROSCAs, Grameen-style group lending programs do not require borrowers to present social capital as a ticket of admission. Those without social capital are welcome to join a microcredit solidarity group, a flexibility that considerably expands access beyond the limits of those eligible for ROSCA membership. However, Grameen-style microcredit agencies consciously impose social capital development upon borrowers as a condition of loan access.58 Five-woman solidarity groups represent social capital that the Grameen-style agency created rather than social capital that female borrowers already enjoyed and then presented as collateral. Upon entry to the microcredit agency, the individual women are normally acquainted and lack the solidarity that, once in place, finally confers creditworthiness. Because of mutual responsibility for loans and joint training exercises, microcredit borrowers acquire the enforceable social capital that alone makes them creditworthy, but they need not command that social capital as a ticket of admission to the agency. In this sense, the Grameen-style microcredit agency opens its doors to people neither banks nor ROSCAs could serve.

The poor normally lack jobs, education, and collateral, but they need not also lack social capital.59 Even if they do lack social capital, the poor need not also lack the capacity to form social capital. When the poor have no collateral, banks cannot make them creditworthy, no matter what their social capital. When the poor lack collateral but have social capital, then ROSCAs can make them creditworthy anyway. When the poor lack collateral and social capital, but retain the capacity to form social capital, then Grameen-style microcredit can make them creditworthy. That is why microcredit agencies can reach people whom ROSCAs cannot.

Problems arise when the poor, lacking collateral, also lack social capital and even lack the capacity to form social capital. Unfortunately, because of American social conditions, including the prevalence of addictions, and the extreme individualism of the American culture,60 inability to form social capital occurs more frequently here than in Bangladesh. As a result, Grameen-style solidarity groups are harder to form and to maintain in North America than in Bangladesh. Therefore, American microcredit agencies cannot make all the poor creditworthy by creating social capital, the usual strategy in Bangladesh. Under the circumstances, American microcredit agencies have been compelled to change strategy. Training individuals displaces creation of social capital as the first priority. Agencies naturally prefer to train clients who already have the most human and cultural capital because they are easiest to train. In this manner, the American microcredit agencies select for training and loans the least impoverished of the poor rather than the most impoverished.

CONCLUSION

Banks have never provided financial services to immigrants, to the poor, to women, and to small business. In self-defense, bankers claim that the costs of servicing these markets surpass the revenue they yield. Unpersuaded, critics of the banking industry claim that social discrimination contributes to the banks' neglect of these markets. Reviewing the evidence, we find that social discrimination is a real but minor contributor to the poor service banks offer. The main contributor is the high cost banks face when servicing these problem markets. However, this conclusion does not prove that only subsidies can improve the access of immigrants, nonwhites, the poor, women, and small business to financial services.61 Banks cannot service these markets but microcredit and informal credit can and, indeed, already do.

Grameen-style microcredit and informal credit are nonbank financial institutions that not only reach but actually target the banks' problem markets. As Table 9.1 specifies, enforceable social capital is the key to their ability to accomplish this feat. Banks do not accept social capital as loan collateral, but both informal credit and microcredit do. For this reason, both microcredit and informal credit can make loans to underserved groups to whom banks cannot lend. However, informal credit and microcredit vary greatly in which lenders they can accept. Informal credit requires prior and existing social capital among users as a condition of admission. Those who cannot be enforceably trusted cannot be admitted. In this practice, informal credit gives much more scope and range to social capital than do banks, whose operating vision is ultimately framed in liberal individualism. Unlike informal credit, however, Grameen-style microcredit does not require that clients present existing social capital at the time of entry. But Grameen-style microcredit does require clients to develop social capital as a condition of borrowing. The creation of enforceable trust permits Grameen-style microcredit agencies to expand the circle of creditworthiness to destitute people who, lacking all other resources, can at least build social capital.62 This expansion enlarges the circle of the creditworthy beyond what even informal credit could reach because the very poorest individuals typically lack social capital.

In the American social context, one finds more poor people who, lacking collateral and social capital, even lack the capacity to form social capital. Caroline Moser supposes that impoverished people who lack social capital are the poorest

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Chapter 9 Credit Issues in the Ethnic Ownership Economy

of the poor. We disagree; a worse poverty exists. When the poor lack social capital and even lack the capacity to form social capital, their situation is worse than when they only lack social capital. Such people are truly the poorest of the poor. A cultural import from Bangladesh, Grameen-style microcredit cannot assist these poor people, so most American microcredit agencies have shifted their priority from creation of social capital to training trainable individuals. When training individuals becomes the goal, then agencies acquire an incentive to select from the pool of impoverished loan applicants those who require the least training. Training them is easier and cheaper than attempting to build social capital among those who cannot build it. However, this new strategy encounters the objection that the agency is selecting the least impoverished of the poor. Moreover, the training of individuals costs money, so the microcredit agencies require subsidies to offer it.

Contrasting banks on the one hand and, on the other, informal credit and microcredit, we find that each institution's orientation to social capital explains success or failure in the problem markets. Except for institutional credit checks, a commodified social capital, banks ignore borrowers' uncommodified social capital. However, ROSCAs and Grameen-style microcredit lenders orient their entire strategy around social capital. Compared with this reorientation, the social discrimination of the bankers is of modest importance. This institutional difference in orientation explains why banks cannot service the problem markets whereas microcredit and informal credit can. Therefore, the chronic failure of the American financial system to deliver services to the problem markets arises from an excessive reliance upon banks. It is as though American society asked beavers to fly as well as to build dams, then criticized eager beavers for incompetence. To reach the problem markets, the American financial system needs to diversify institutional forms, expanding the role and scope of informal credit and microcredit without eliminating the vital role banks play in the mainstream. The trouble is, microcredit and informal credit are, relative to banks, still few in number, short of assets, and subject to obsolete laws that curtail their growth. Therefore, the development of a balanced financial system, which better serves the needs of the poor, of women, and of small business, requires structural reform of banking.

Endnotes

Chapter 1


8. Werner Sombart, The Jews and Modern Capitalism (Glencoe, Ill.: Free Press, 1952), 33.


11. One might suppose that Jews would welcome the honor of having invented capitalism. However, in Wilhelmian Germany, capitalism was hated on the socialist–landed right wing as well as on the socialist left wing. Therefore, capitalism's inventors would have been obnoxious to many Germans. To blame the Jews for inventing capitalism was, in that political climate, to lay opprobrium at their door, thus bolstering old-fashioned religious anti-Semitism with economic arguments. In point of fact, a generation later, Hitler's left-wing supporters did lay this historical opprobrium at the doorstep of the Jews. In recognition of The Jews and Modern Capitalism, Weber's contemporary and intellectual rival, Werner Sombart, received an honorary membership in Hitler's party. See Anthony D. Reid, "Entrepreneurial Minorities, Nationalism, and the State," in Daniel Chirot and Anthony Reid, eds., Essential Outsiders, ch. 2. On the whole controversy, see Karl-


30. Suzanne Berger defined the “traditional sector” of France and Italy as those groups whose “activities involve the production of goods with technologies, costs, capital-labor ratios, and patterns of ownership and management that are significantly different from those used in the production of the same goods by other, modern firms. . . . We are above all describing the class of small, independent property owners: farmers, shopkeepers, artisans, and certain small and medium businesses.” See “The Traditional Sector in France and Italy,” ch. 4 in Suzanne Berger and Michael Piore, eds., Division and Discontinuity in Industrial Societies (Cambridge: Cambridge University Press, 1989), 91.


59. In fairness to the assimilation model, its predictions are a matter of speed as well as of direction. Conceivably, the assimilation model’s predictions will ultimately prove as successful among nonwhites as they already have among whites. However, it is quite possible that this point will remain unreachable. See Ivan Light, "Ethnic Succession," in Charles F. Keyes, ed., Ethnic Change (Seattle: University of Washington Press, 1981), 68–69.

60. "Data from the 1991 Australian census shows that many [non-English-speaking background] immigrant groups continue to have a higher relative presence as employers and self-employed than do Australian-born in the 1980s. High entrepreneurship groups in Australia include those from Korea, Greece, Italy, Germany, Holland, the Czech Republic, Switzerland, Sweden, and Hungary. Low entrepreneurship groups in Australia include those from Japan, India, Sri Lanka, Vietnam, Indonesia, and Turkey. Average entrepreneurship groups include those from China, Singapore, Malaysia, Egypt, Lebanon, Poland, Ukraine, Yugoslavia, Canada, and the United States. Collins, "Cosmopolitan Capitalism: Ethnicity, Gender, and Australian Entrepreneurs," 1259.


66. Impossible because, where noncommunicating labor markets exist, employers will hire cheap nontraditional labor in preference to expensive coethnic labor. At this practice spreads, the formerly noncommunicating labor markets merge into a single labor market.


71. Light and Bonacich, "Immigrant Entrepreneurs," 1.


76. This was also the point of view of Thomas Bailey and Roger Waldinger, "Primary, Secondary, and End of Enclave Labor Markets: A Training Systems Approach," American Sociological Review 56 (1991), 432–45.


79. "Immigrant families of immigrant groups which concentrate in a distinct spatial location and organize a variety of enterprises serving their own ethnic market and/or the general population. Their basic characteristic is that a significant proportion of the immigrant labor force works in enterprises owned by other immigrants," Portes, "Modes of Incorporation and Theories of Labor Immigration," 290–91.

80. Wilson and Martin redefined Porter’s concept of enclave economy in order to permit group comparisons, they developed an input–output model that permitted estimation of the extent to which vertical integration of firms permitted an enclave economy to capture spillover effects. Although no one has subsequently followed up this line of research, their emphasis upon compact interdependence did become a permanent feature of the enclave literature. See Kenneth Wilson and W. Allen Martin, "Ethnic Enclaves: A Comparison of the Cuban and Black Economies in Miami," American Journal of Sociology 88 (1982), 135–60.


82. Portes, "Modes of Incorporation and Theories of Labor Immigration," 203.

83. Portes and Bach, Latin Journey, 217.

84. Portes and Bach, Latin Journey, 187.


86. Portes and Bach, Latin Journey, 188.

87. Portes and Bach, Latin Journey, 189.

88. Niels H. Hansen and Gilberto C. Carriero, "Immigrant and Native Ethnic Enterprises in Mexi-
might have required a modification of their lepidopteran conclusion, a contradiction to the textbook model, that only demand-side influences affected entrepreneurship in the British areas.


108. Given his design, Waldinger could not explain why, on the supply side, immigrant groups other than Dominicans and Chinese were not drawn into the garment industry, nor on the demand side, whether other New York City industries did not offer access or equally valuable demand opportunities to Dominicans and Chinese.

109. Light and Rosenstone, Race, Ethnicity, andEntrepreneurship in Urban America.

110. Light and Rosenstone, Race, Ethnicity, and Entrepreneurship in Urban America, 93.


115. Light and Bonacich, Entrepreneurship, 193.


118. Logan, Alba, and McNulty, "Ethnic Economies in Metropolitan Regions: Miami and Beyond," 693.

119. "An ethnic economy could be defined as any situation where common ethnicity provides an economic advantage: in relations among owners in the same or complementary business sectors, between owners and workers, or even among workers in the same firm or industry regardless of the owner's ethnicity," Logan, Alba, and McNulty, "Ethnic Economies in Metropolitan Regions: Miami and Beyond," 693.


122. The data Bates presents do not, however, support his theoretical generalization. "Blacks and Hispanics are significantly less likely than whites to enter self-employment, controlling for other factors. The other factors... are educational background, household wealth, work experience, age, gender, and marital status." Race, Self-Employment, and Upward Mobility, 31.


124. Light and Bonacich, Entrepreneurship, 197.

125. Jicka, Ethnicity and Ascription, 223.


129. Waldinger, *Still the Promised City?,* 302.


134. “The results show that, for both white and black youths, the most frequently used methods of search are checking with friends and relatives, and direct application without referrals. These are also the two most productive methods,” Harry J. Holzer, “Informal Job Search and Black Youth Unemployment,” *American Economic Review* 77 (1987), 446.


139. In many cases, owners prefer to abridge responsibility for hiring to employees, who perform for a service the employers would otherwise have to administer at their own cost. The Bank of America’s checking facility on Figueroa Street in Los Angeles once hired only Cubans on its second floor. The reason: the Cubans were good workers, and they assumed the responsibility for finding a replacement when any cohesive retired or quit.


143. Our distinction renews the same ownership vs. control terminology that Behr and Means (1967) utilized to discuss the modern corporation. However, the overlap is just fortuitous. We are not discussing ownership vs. control of corporations, but the manner in which ethnic groups extend their influence over whole economies. See Maurice Zeitlin, *The Logic Corporation and Contemporary Classes* (New Brunswick, NJ: Rutgers University, 1989), chs. 1, 2.


145. Light, “Ethnic Succession.”

146. Waldinger uses the term *usurpatory closure* to designate coethnic’ ability to exclude outsiders from hiring. The term “ethnic-controlled economy” includes this function, but also includes the ability of coethnic employers to feather their own nest in other ways. See Roger Waldinger, “Social Capital or Social Closure? Immigrant Networks in the Labor Market,” *Working Paper* Number 26 of the Lewis Center for Regional and Policy Studies, School of Public Policy and Social Research, University of California, Los Angeles, 1997.


**Chapter 2**

1. If 2 Tibetans live in Wusaui, and one works in the other’s business, then the Tibetan ethnic ownership economy would occupy one hundred percent of the Tibetans. This uniformity could not arise if 100,000 Tibetans lived in Wusaui.


3. “Sixty percent of the male Nëtië in the mid-1960s were employees. Of these 10 percent were working in firms that they identified as Japanese American.” Bonacich and Modell, *The Economic Basis of Ethnic Solidarity,* 111.


11. Comparing Tables 2.3 and 2.4, we see that Korean self-employment rates rose drastically between 1980 and 1990. In point of fact, the Koreans were establishing themselves in business in the 1980s so that the increase is probably attributable to a rapidly rising rate rather than to enumeration error.


16. Yoon, Own My Own, 20–21.
23. Colonialism creates this type. For instance, the British rubber industry in Malaya once resembled this description. While Malaya (now Malaysia) remained in the British empire, all the plantation owners were British; all their casual employees were non-British.
28. "Another part of the informal economy is working illegally for others, rather than being self-employed. This usually means being paid in cash with no deductions for social security or any other benefits," Alex stepick, Pride Against Prejudice: Haitians in the United States (Boston: Allyn & Bacon, 1998), 48.
34. .32 x .75 = .243.
36. Quoted from Porto, The Informal Economy and Its Paradoxes, 441.
43. Tienda and Rajman, 52.
47. "Haitians become full-time informal sector entrepreneurs usually when they have no choice, when they lose or cannot obtain wage-labor employment," Alex Stepick, Pride Against Prejudice: Haitians in the United States (Boston: Allyn & Bacon, 1998), 45.
49. Stepick, Miami's Two Informal Sectors, 122.
51. Of course, predatory crimes have an economic basis too, but they do not take the form of a business. Therefore, they are not illegal enterprises. Joel Vacque blurs this distinction, lumping the sale of stolen merchandise, pilage, break-ins, and stealing cars with gambling, drug sales, pimping, and even murder for hire. Inside the Zone: The Social Art of the Hustler in the Black American Ghetto, Theory, Culture, and Society 15 (1998), 1–36.
55. The Mafia is "clearly only a part of the world of stable, hierarchical criminal organizations. There are others, more or less ethnically homogeneous. . . . " 74 Peter Reuter, and Jonathan B. Rubinstein, "The Economics of the Criminal Economy," Alan D. Beck, ed., (New York: St. Martin's Press, 1992), 249–270.
60. Logan, Alba, and McNulty, "Ethnic Economies in Metropolitan Regions: Miami and Beyond," 538.
61. [51 x 1.5p] + [90 x 1p] = 100
62. Ivan Light and Edna Bonacich found that one-third of Los Angeles industries had no Korean employees. Just on this basis alone, the Koreans would have to be overrepresented in the other two-thirds of occupations and so, indeed, they were. This evidence suggests the possibility that all Koreans worked in niche industries. Immigrant Entrepreneurs (Los Angeles: University of California Press, 1988), 162.

65. Germans utilize "high levels of human capital and resemblance to Canada's mainstream society to advance in the general labor market. While they were quite entrepreneurial, entrepreneurship was not necessarily the most beneficial path for them. Germans have been among the least likely to retain close ethnic ties across the generations and have abandoned ethnic concentrations in labor markets." Eran Razin and Andre Langlois, "Metropolitan Characteristics and Entrepreneurship Among Immigrants and Ethnic Groups in Canada," International Migration Review 30 (1996), 714.

66. Ivan Light's mother, then five years old, was ejected from the St. Louis Public Library in 1917 for the crime of speaking German.

67. Major assimilation theorists, nonetheless, indicated that 73.8 percent of Chinese immigrants in San Francisco, 77.4 percent of Korean immigrants, and 18.6 percent of Filipino immigrants were in ethnic ownership economies. Nee, Sanders, and Sennett, "Job Transitions in an Immigrant Metropolis: Ethnic Boundaries and the Mixed Economy," 855.


70. Handlin, Boston's Immigrants, 2nd ed., Table XIV.

71. To label an economic resource "political" might have hostile or even racist implications in the anti-state culture of American society. See: Lock Hagensdorff, "Ethnic Categorization and Outgroup Exclusion: Cultural Values and Social Stereotypes." Ethnic and Racial Studies 16 (1993), 26–51. We imply no such hostility: Flora (not Marx) said that justice is the true purpose of the state. If so, a state should intervene in labor markets when intervention is necessary to ensure justice. Aisha C. Blackshear-Belay defends affirmative action in the academy on just these classical grounds. "The Status of Minority Faculty Members in the Academy," Academic 84 (1998), 30–36.


77. Light and Rosenstein, Race, Ethnicity and Entrepreneurship, ch. 5; Nia, Caught in the Middle, ch. 6.

78. Edna Bonacich argues that immigrant entrepreneurs are inept because they exploit the cheap labor of distressed coethnics and prop up the capitalist ideology. "Making It in America," Sociological Perspectives 30 (1987), 446–466.

Chapter 3

1. If Eo is the jobs created in the ethnic ownership economy and G is the jobs in the general labor market for which ethnicics may compete, then G + Eo = the job supply. And G + Eo > G. If additionally, Eo is jobs captured in the ethnic-controlled economy, then Eo + G > G + Eo > G.


3. The very worst case would be to work in the general labor market for rewards inferior to those paid in the ethnic economy.


5. Alan Wolfe, Marginalized in the Middle (Chicago: University of Chicago, 1996), 46.


13. "... Income" refers to flows of money, goods, or services, while assets refer to stocks of wealth or accumulations. Michael Sherraden, Assets and the Poor (Ames, I: N.E. Sharpe, 1997), 96.

14. Sherraden distinguishes tangible assets and intangible assets. Tangible assets include money, securities, real estate, jewelry, watches, and so on. Intangible assets include: access to credit, human capital, and cultural capital. In the form of knowledge culturally significant subjects, such as vocabulary, accent, dress, appearance, informal social capital such as friends and family, formal social capital, and even political capital in the form of participation, power, and influence in the state. Assets and the Poor: A New American Welfare Policy (Armonk, NY: M.E. Sharp, 1991), 102.

15. For example, a lady with a high income who spends more than she earns will make debts that are negative assets.


18. To be sure, half of the self-employed fall in business within two years of starting, and three-quarters within five years. These statistics apply to the ones who succeed, not to the failures.


an ethnic labor force of 1,000 workers could represent 1,000 employer firms each of whom hired non-coースh workers. In this case, the size of the ethnic economy would be 100 percent, but its remuneration level would depend wholly upon business owners’ returns and not at all upon wages. The wages would, after all, be paid to non-coースh workers, and so would not affect the ethnic economy’s remuneration level.

48. From Table 3.3.

49. If a significant proportion of coースh workers are illegal, and uncounted, we overestimate the rate at which ethnic communities convert labor force into business firms. Mexican workers, and particularly the undocumented, are a vital economic asset to the Chicano community, one that has contributed significantly to the development, maintenance, and recent expansion of the Chicano business sector and middle class. Gilberto Carranza, Rodolfo O. de la Garza, and Niles Hansen, "Mexican Immigrants and the Chicano Ethnic Enterprise: Reconceptualizing an Old Problem," Mexican Immigrants and Mexican Americans: An Evolving Relation (Austin: Center for Mexican American Studies of the University of Texas, 1986), 158.

50. "... If we piled black businesses that would not substantially reduce the black unemployment rate nor would it significantly increase black wealth in America," Kunjaru Jawansa, Black Economics (Chicago: African American Images, 1991), 159. Kunjaru’s claim is clearly wrong here.


52. What counts here is the ratio between employees and gross payroll, not the observed payroll as a percentage of the expected payroll. As a percentage of expected payroll, observed payroll measures how much money was actually paid out in wages relative to how much would have been paid out had there been no coースh workers, employers, employees, and payroll at the same rate as the general economy. In this case, however, our interest is the relative performance of an ethnic economy in production of employees and of payroll. A poorer performance in production of payroll suggests wages that are lower than the general labor market paid.


54. McKeeve, "Reproduced Inequality: Participation and Success in the South African Informal Economy.


56. Ang Lee’s feature-length film, “Pushing Hands” deals with underpaid workers in New York’s Chinatown and their unscrupulous but coースh employers.


58. Of course, if they do not pay their workers the wages they owe them or if they pay wages below the legal minimum, they are operating in violation of the law. See K. Connie Kang, "41 Restaurant Violated Labor Laws," Section 1:113, "Ex-worker’s Suit Seeks Back Wages," Los Angeles Times, Aug 5, 1998.

59. Karl Marx defined exploitation as the owner’s rate of profit where profit is money remaining after all costs of the business have been paid, including the owner’s labor charge. On Marx’s definition, highly paid workers can be exploited workers since they are paid more than their wage value. If paid workers are not exploited when the owner’s profit is zero. Moreover, a profit exists only when a surplus remains after a business owner’s labor charge and the opportunity cost of their capital have been deducted. On this account, hardly any ethnic minority or immigrant-owned businesses turn a profit. Without profit, they cannot exploit anyone. Karl Marx, “Wages, Price, and Profit,” pp. 398–440 in Karl Marx and Frederick Engels: Selected Works, vol. 2 (Moscow: Foreign Languages Publishing House, 1962).


Chapter 4


5. Bourdieu collapses gender, ethnicity, and generation into class, a strategy that conflates class resources and ethnic resources. See: Rogers Brubaker, "Rethinking Classical Theory: The Sociological Vision of Pierre Bourdieu," Theory and Society 14, 762.


9. Overlap occur too. In Jin Yoon points out that class culture often coincides with cultural values and attitudes of an ethnic group. He gives the example of Korean Americans all of whom, he claims, equally value education, hard work, and thrift, thus rendering these archetypically class values into cultural values. "The Changing Significance of Ethnicity and Class Resources in Immigrant Business," International Migration Review 23, 303–331.

10. Korean immigrants have an unusually hard time learning English claims Pung and Min, implying that the language is linguistic in origin. Koreans speak English well, says Min, than one would expect from their educational background. "Korean Immigrants in Los Angeles," in Ivan Light and Farinder Bhabhu, eds., Immigration and Entrepreneurship (New Brunswick, NJ: Transaction, 1993), 154.


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21. "The most famous of the organizations that have attempted to fill the breach in credit opportunities for women are the so-called rotating associations, almost always female dominated. . . . Small numbers of women will periodically contribute a portion of their earnings to a common fund; once in a regular cycle each woman will be able to draw a substantial amount of money from the fund to restock or otherwise improve her business." William C. Jordan, Women and Credit in Pre-Industrial and Developing Societies (Philadelphia: University of Pennsylvania, 1983), 100; also see Jean-Pierre Hassan, "Des Patrones Chinoises à Paris," Revue Française de Sociologie 34 (1993), 97–123; Dale Adams and M.I. Canaves de Sahonero, "Rotating Savings and Credit Association in Bolivia," Savings and Development 13 (1989), 219–36; John Campbell, "The New Neighbors," The Federal Reserve Bank of Boston Regional Review 2 (1992), 17; Philip Kasinitz, Caribbean New York (Ithaca: Cornell University, 1987).


23. "Traditionally within the Amish community, private and family loans have financed new operations. Parents, relatives, or fellow church members extend credit to newly married couples or young families." Donald B. Kraybill and Steven M. Nolt, Amish Enterprise: From Plows to Profits (Baltimore: The Johns Hopkins University Press, 1995), 56. They also say (p. 156): "The church encourages members to make mutual aid their first priority. Successful business owners are expected to extend low-interest loans to fellow members."


29. "Greater borrowing from friends (some of which may represent R&As) is consistent with the hypothesis that social resources available from group support networks disproportionately benefit Asian-immigrant firms." Timothy Bates, Race, Self-Employment and Upward Mobility (Baltimore: Johns Hopkins University Press, 1997), 126–127.


38. Bates, Race, Self-Employment, and Upward Mobility, 30; Light and Rosenzweig, Race, Ethnicity, and Entrepreneurship, 130–131.


40. Light and Rosenzweig, Race, Ethnicity, and Entrepreneurship, 120.


43. Gary S. Becker, Accounting for Tastes (Cambridge: Harvard University, 1998), 5. Decker is dissatisfied with this narrow definition and seeks in this book to extend it.

44. In state socialist economies of the now-defunct Soviet type, the state paid students a stipend so students paid no opportunity cost or tuition.

45. This opportunity cost can mount up even if a student’s wage is small. At the minimum wage, a student would earn $9,000 in nine months, the usual academic year. In four years, the student would have failed to earn $35,000, an opportunity cost.


50. "..., the positions of agents, their habits, that is, the mental structures through which they apprehend the social world, are essentially the product of the internalization of the structures of that world." Pierre Bourdieu, "Social Space and Symbolic Power," Sociological Theory 5 (1988), 15, also, Pierre Bourdieu, Outline of a Theory of Practice (Cambridge University Press, Cambridge, 1977), 77, 83.


53. "The choice of address, clothing, or cuisine are especially revelatory of one’s social background because, situated outside the intervention of schools, they express, if you like, the naked taste beyond any express prescription or proscription." Bourdieu, Les Dits de l’Évaluation, 84–5. Translation by Ivan Light. Kay and Hagan find that women attorneys require stronger cultural capital than men attorneys to earn partnerships in prestigious law firms. "Raising the Bar: The Gender Stratification of Law-Firm Capital," American Sociological Review 63 (1998), 728–743.

54. This definition is exclusive. High-status knowledge that cannot be readily turned into financial gain is not cultural capital. Hence, the poor lack cultural capital even though they do not lack cultural knowledge.

88. Altermir, Remarli, and Langton distinguish only two forms of capital, physical and financial, and entrepreneurial. By entrepreneurial capital they mean human capital plus “attitudes, values, skills, and emotions that are relevant to business ownership.” They exclude social capital from this definition, but acknowledge its influence. “Passing on Privilege,” 295, 298.


90. Their achievement was analogous to that of the post-World War II Hungarian bourgeoisie which, stripped of its wealth by the communist government, emerged a generation later with independent property, entirely on the basis of their class culture, Szelenyi, *Socialism Entrepreneurs*, 210.


94. “It was like, once upon a time, I could have owned a Wendy's, now I can't even eat at one.” Lole Wacquant, Inside the Zone: The Social Art of the Hustler in the Black American Ghetto,” 28. Theory, Culture, and Society 13:28.


98. Bates acknowledges also “social resources” that “flow from ethnic solidarity” and which “may help” entrepreneurs. But Bates identifies human and social capital as the only class resources. Bates, *Race, Self-employment and Upward Mobility, 14, 15.


103. This is classical liberalism whose case for inequality rests upon the view that by identifying and rewarding “a wealth-creating few” we enhance the material welfare of all Parkin, * Marxism and Class Theory*, 186.

104. Indeed, the language of social science elegantly explains what neo-classical economists must simply posit.
250 Endnotes


126. Such a case would utilize a class-only explanation, type 1 in Table 4.5.


Chapter 5


3. Louis Lein, "Born Again in East LA: The Congregation as Border Space," pp. 163–196 in R. Stephen Warner and Judith G. Wimmer, eds., Settlements in the Diaspora: Religious Communities and the New Immigration (Philadelphia: Temple University Press, 1998), 189. However, in abandoning Catholicism, these converts are also giving up certain ethnic resources, such as access to Catholic schools, colleges and social service agencies that have played an important role in the upward mobility of Catholic migrants.


5. Reflecting the importance of class resources in defining ethnicity, Carey McWilliams describes how established and relatively affluent persons of Mexican ancestry in the Southwestern U.S. were known as "Spanish-Americans" in contrast to poorer coethnics who were known simply as "Mexicans" despite their similar backgrounds. Steven Gold observed white Californians making similar distinctions in the 1970 and 1980s. Carey McWilliams, North From New Mexico (New York: Greenwood Press, 1968), 121–6.


36. A starving pauper lacks the knowledge to farm, but starvation affords him the incentive.
38. Who is more disadvantaged in the labor market: an 18 year old black man who has completed high school or a 62 year old white man who had the same educational credential? What if the older white man is also disabled, alcoholic, ex-convict, and a homosexual? If we keep piling on the disadvantages, the white man's disadvantage finally exceeds the black man's.
40. Sengstock explained the entrepreneurial of Roman Catholic Chaldeans in Detroit who were "forced into the grocery business" because they lacked marketable skills, and knew little English. (Mary Catharine Sengstock, "Maintenance of Social Interaction Patterns in an Ethnic Group," *American Sociological Review* 23 [1958], 739–755.)
43. Individuals may be disadvantaged even when they receive better than expected treatment in the labor market. Such a person may have succeeded despite discrimination. But we cannot make the same claim of groups.
57. Resemblances to Merton's anomie paradigm are inescapable. Entrepreneurship is a kind of innovation. Merton thought that innovation arose from the combination of blocked access to institutionalized means and introduction of cultural goals. Translated into the entrepreneurship lexicon, Merton's view becomes the simple disadvantage theory: subject to discrimination in the labor market, ambitious people turn to entrepreneurship. The trouble is, we haven't to point out,
people who have introjected the cultural goals may lack the requisite resources in which case innovation becomes repressiveness. Robert King Merton, Social Theory and Social Structure (New York: Free Press, 1957), 140.

58. Entrepreneurship means legal activities accessible to measurement. Those engaged in the informal or illegal economy are likely to claim unemployment rather than to reveal their participation in the informal economy. Those without resources, therefore, lack access to the "legal" economic structure, and when they have the added burden of labor market disadvantage, they may have access only to the informal or illegal economic structure. In fact, resource disadvantage and labor market disadvantage may provide the motivation for their engagement in such activities.


62. Timothy Bates, Race, Self-Employment, and Upward Mobility (Baltimore: Johns Hopkins University, 1997), 35.


Chapter 9


3. Savings and loan associations originated because banks were unwilling to "make loans to individuals for home construction," Heather A. Haveman, and Hayagreeva Rao, "Structuring a Theory of Moral Sentiments: Institutional and Organizational Coevolution in the


5. “There are three banks and four savings and loans with a combination of seven branches in South Central. Only two of the three banks with South Central branches made single family loans in the study area. One of these two banks, Bank of America, issued only one loan in the area. Of the four savings and loan institutions, only two contributed significantly to single family home lending.” David Rappaport, “South Central Home Loan Study,” Master’s Thesis, University of California, Los Angeles, 1989, p. 4.


8. Statistical Abstract of the United States, 1996, Table 775


16. “... Poverty is not created by the poor, nor is it sustained by them. The roots of poverty lie in... our institutions, concepts, and theoretical frameworks.” Muhammed Yunus, “Grameen Bank: 1


21. “... lack of saving potential is not necessarily the biggest obstacle which prevents low-income groups from saving. Frequent causes are mistrust of financial institutions or simply, lack of access to banking...” U.N. Center for Human Settlements, Mobilization of Financial Resources for Low-Income Groups (Nairobi, 1990), 8.


23. Brett Poley, “Living Off the Daily Dream of Winning a Lottery Prize,” New York Times (May 22, 1999, sect. 1). In William Hogarth’s lithographic series entitled “The Rake’s Progress,” a rich young man dissipates his fortune on drink and whores. In the eighteenth century Hogarth, already knew that even the wealthy sometimes mismanage their finances. From a moralistic point of view, never far away in the United States, the poverty of those who ignored the money culture they had learned is more reprehensible than the poverty of those to whom the money culture was never offered.


29. In the case of small business owners, who are not poor themselves, we mean the poverty of those long-term unemployed who never obtained the jobs the small business owners would have created had banks lent them money.

30. A claim that is, at their own data reveal, only partially true because some ethnic-racial groups are better provided with informal lending capacity than are others. See: Philip Bond and Robert...


54. "Literally all the immigrants in this study were familiar with revolving loan funds, and many Koreans participated in kye and dominicans in the use of revolving loan funds, to buy car, truck, or furniture, and to finance a wedding or an education, their use for home purchases was relatively uncommon. Only a few Korean immigrants mentioned that they or their acquaintances had used funds accumulated through kye as a significant part of their downpayment." Stephen J. Johnson, and Melina Kazimi, "Homeownership Aspirations and Experiences: Immigrant Koreans and Dominicans in Northern Queens, New York City," *Citizenship: A Journal of Housing and Urban Development* 3 (1997), 87.


58. Severens and Kaye, xvii


64. "Informal credit markets are prima facie evidence of failure because the presumed most efficient market institution is a formal financial sector composed of banks, cooperatives, or other intermediaries that can bring together efficiently large numbers of lenders and borrowers." Nicole Woolsey Biggar, Richard P. Cantarini, H and Paul R. Davis, "Institutional Foundations of Rotating Savings and Credit Associations: A Socioeconomic Perspective," Unpublished manuscript, University of California at Davis, 1997, 3.

65. This is the classic definition of a bank: "The Dayton plan also suffered from the stigma of being merely a bank." Bank was a pejorative term because relationships among participants were those of debtor and lender rather than cooperators peer. Hawke and Roa, "Structuring a Theory of Moral Sentiments," 1641.

66. Mexico’s Autofin is a commercial firm that has learned how to associate mutually unknown borrowers in a ROSCA-like self-financing groups of 125 persons. Founded in 1978, Autofin offers car and home financing to poor borrowers, most from the informal sector, who make monthly contributions to a pool before finally becoming eligible to receive the total fund. As of October, 1998, Autofin had delivered 1,280 cars and $15,700,000 of home finance to borrowers "who would never qualify for bank credit but whose [repayment] performance is fine." James W. Smith, "Purchasing Power to the People," Los Angeles Times (Nov 29, 1998, section C), 1.


71. We do not object to cost-effective public subsidies. We are merely observing that microcredit and informal credit can fill the gap too.


Selected Bibliography: 50 Key Sources on Ethnic Economies

In compiling this list of references, we combined two lists of 25 works, one published prior to 1986 and one after. We did try to include a good mix of both historical and contemporary writings. A full bibliography is available at the book’s website: http://www.apsa.net.com


